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THE HIDDEN PHARMA BILLIONAIRES

Eight unsung entrepreneurs who came, healed and conquered

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Dilip Surana

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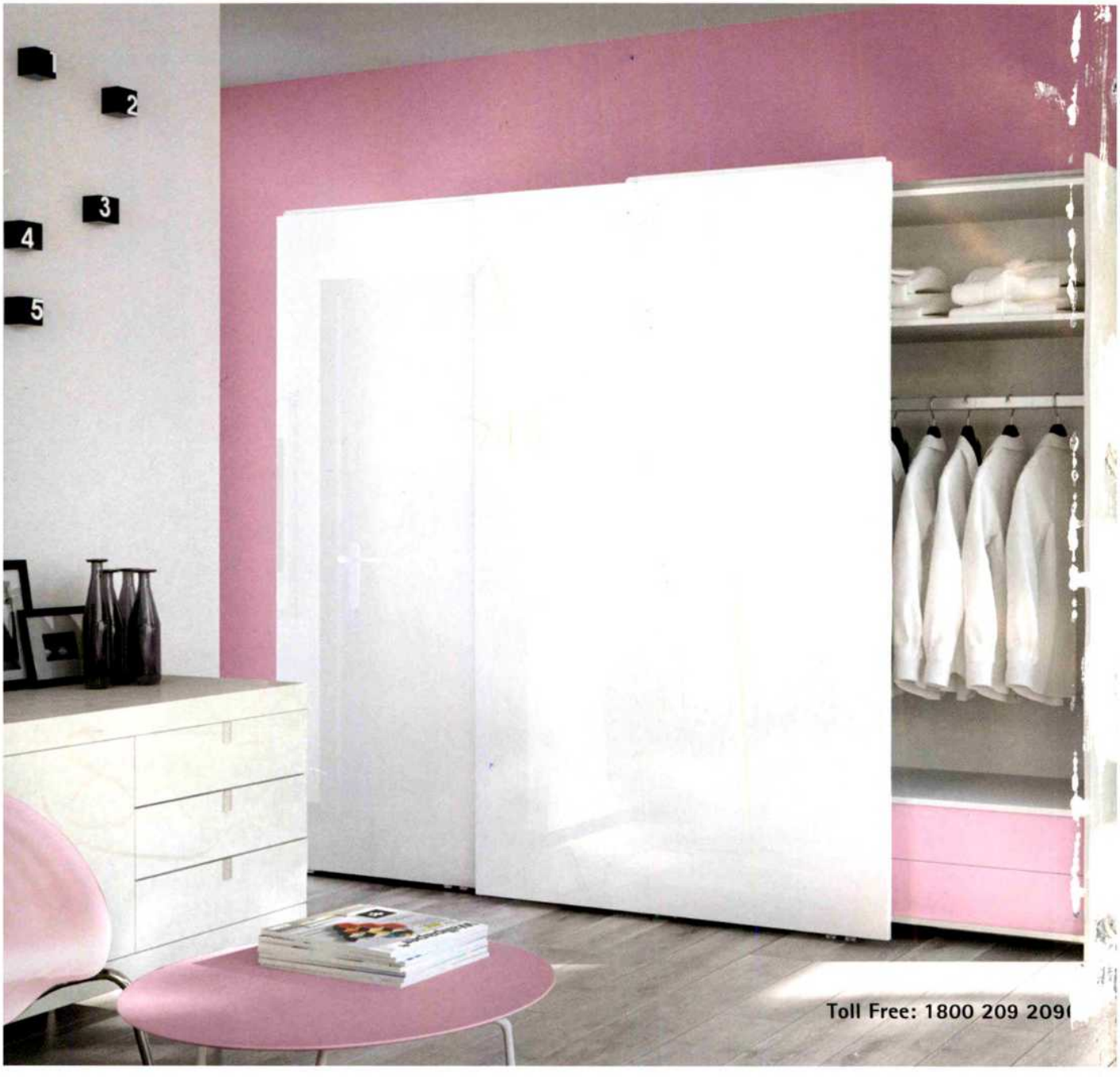

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From the Editor

The Drug Barons ₹ 34,847

Just as the past five years have seen an explosion of e-commerce and digital business entrepreneurs in India, and the 1990s was the era of the Indian IT services entrepreneurs, the 1970s saw a burst of start-ups in the pharmaceutical sector. Indeed, you could say that the Indian pharmaceutical industry was actually born in the 1970s. Before that, a few multinational drug companies dominated the market, and the Indian presence in the drug industry was minuscule.

In the 1970s, the Indian government decided to remove product patents, which had two effects. First, most multinational drug companies decided to stop bringing newly discovered drugs, still under patents in other markets, to India. Two, a large number of Indian entrepreneurs decided to get into the business of drug manufacturing. Some of them focused solely on bulk drugs, while others also stepped into the formulations arena.

Hyderabad – and the undivided Andhra Pradesh as it was then – became the crucible of Indian drug manufacturing, though Mumbai, Ahmedabad-Vadodara and Delhi also boasted some big companies and gave rise to several start-ups (Delhi had Ranbaxy, while Mumbai had Cipla, Lupin and Wockhardt). There was a reason why a large number of start-ups cropped up in Hyderabad. The public sector Indian Drugs and Pharmaceuticals Ltd was based there, and it was the breeding ground of excellent chemists, many of whom left to form their own companies. By far, the most illustrious of these entrepreneurs was the late Dr Anji Reddy, who created Dr. Reddy's Laboratories. Meanwhile, Parvinder Singh of Ranbaxy Laboratories, Y.K. Hamied of Cipla, and Habil Khorakiwala of Wockhardt were revitalising their drug firms in other parts of the country. But they were just a few of the known entrepreneurs – literally a few hundred others got into the game as well.

Over the last decade and a half, the Indian pharma and health care sector has doubled in size. Many companies have become globally competitive and have significant presence in the generics market overseas. Dilip Shanghvi, who set up Sun Pharma with a capital of ₹10,000 in Vapi, is now either India's richest or second-richest man, depending on which ranking of Indian billionaires you follow. Pharma and health care entrepreneurs account for at least a quarter of the top 100 richest Indians. But while some of the pharmaceutical barons are household names, there are quite a few who lead an exceedingly low-profile existence even though they have built significant empires. In our cover story this issue, Senior Editor P.B. Jayakumar, Associate Editor E. Kumar Sharma and Deputy Editor Venkatesha Babu profile eight such hidden gems of the Indian pharma and health care industry.

This issue of *Business Today* is packed with in-depth features on a variety of sectors of the Indian economy. Do not miss the story on how venture debt is taking off in the country (page 38), the analysis of why 3G is doomed to die in India (page 58) and the reason why mega-food parks in India are struggling to take off even six years after the policy was announced (page 68).

Prosenjit Datta

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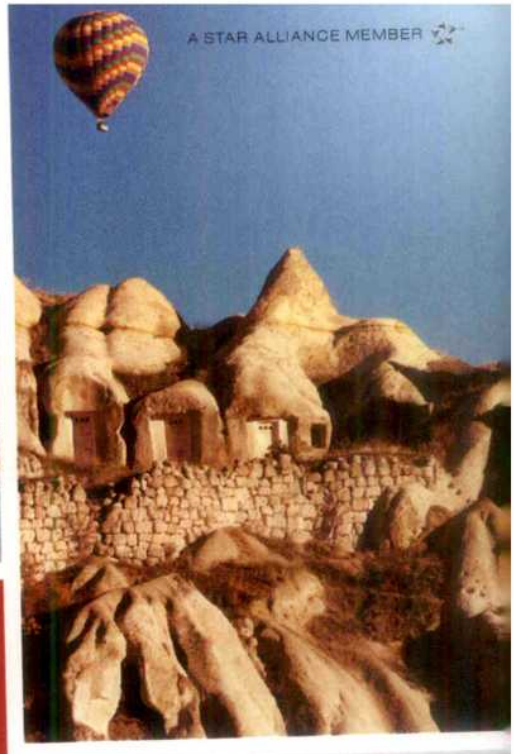

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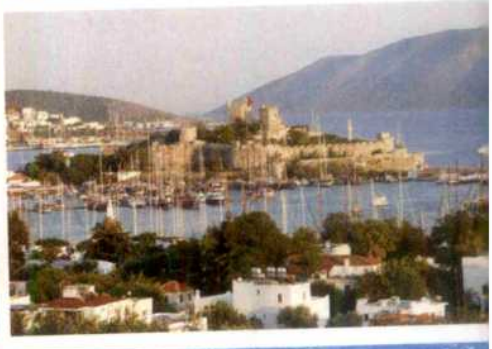

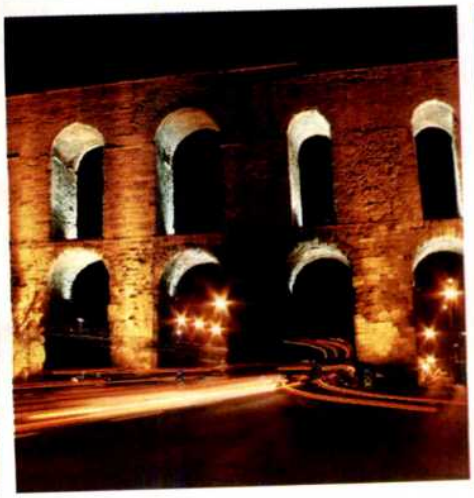

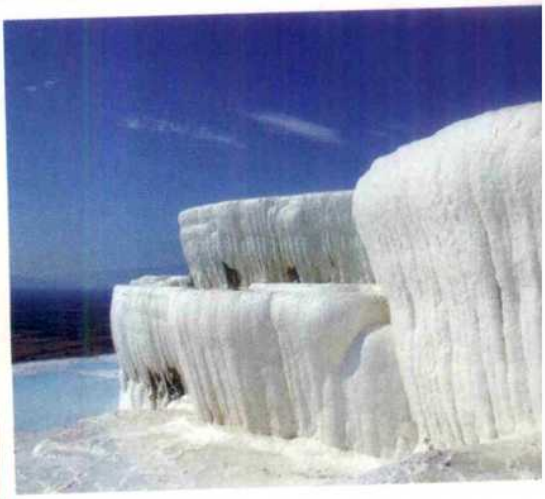

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Re: Letters to the Editor

Utmost Caution Need of the Hour

This refers to your cover story on the coolest start-ups (*Big Dreams*, June 21). Listing the top 10 winners in two categories, it was an excellent compilation effort by your team. It made fascinating reading about the new-generation entrepreneurs – their guts, their gumption, their single-minded purpose and their focused vision and mission for entrepreneurship ventures. As rightly pointed out, most such start-ups will fizzle out into oblivion as a result of their uncertain economic viability. Yes, the spirit of adventure of these guys needs to be appreciated. But utmost caution needs to be exercised by the bankers, VCs and angel investors to ensure that huge funds are not gobbled up by risky propositions – stockpiling the NPAs in the banking and financial sectors.

J.S. Broca, *New Delhi*

A Poignant Portrayal

This refers to the feature on Chettinad Group (*Battle Royale*, June 21). It was a poignant portrayal of the battle in the group, which has presence in industry, plantations, education, and community services in the south, particularly in Tamil Nadu. The son, M.A.M.R. Muthiah, knew very well the traditions and activities of the family, and particularly those of M.A.M. Ramaswamy, prior to his adoption. He cannot cross swords with his adopted father, disowning the filial duties and making him to go from pillar to post to ascertain his lawful rights. How can Iyappan go against the interests of the father, who is questioning his integrity? Historically, the Chettinad family is known for employing classmates and well-wishers of the family in their trade, business and education as the extension of governance. The government must intervene soon and rescue the legitimate successor Ramaswamy from the clutches of Iyappan.

B.Rajasekaran, *Bangalore*

For a Healthy Brand Image

This refers to the feature on VIP Industries (*Identity Crisis*, June 21). It is quite interesting to read. No doubt VIP Industries is the market leader in the luggage category. But I fail to understand why the company is facing an identity crisis. It is quite natural to go through a tough time for any product to sell because of emergence of new brands and change of mindset in the new generation. They want excitement. The company should not be scared of fighting. Rather, it's healthy competition, because monopoly in the long term always tarnishes the brand image. The product quality will improve. And definitely, it will boost the company's image in the years to come.

Abhinav P., *New Delhi*

Send all your comments to: editor.bt@intoday.com

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Maggi crisis after-effect: HUL recalls Knorr noodles.
Fun is just beginning. - **Madhusudan Thakkar**, *@madhusudan41*

Change in rail Tatkal ticket booking time, 50 per cent refund on cancellation.
Good initiative by Modi govt. - **Sanjay Upadhyay**, *@sanjay82339528*

Hiring activity drops in May, job momentum will improve: Naukri.com.
I think naukri.com has lost the trust among job-seekers.
- **Shishir Srivastava**, *@ShishirRishu*

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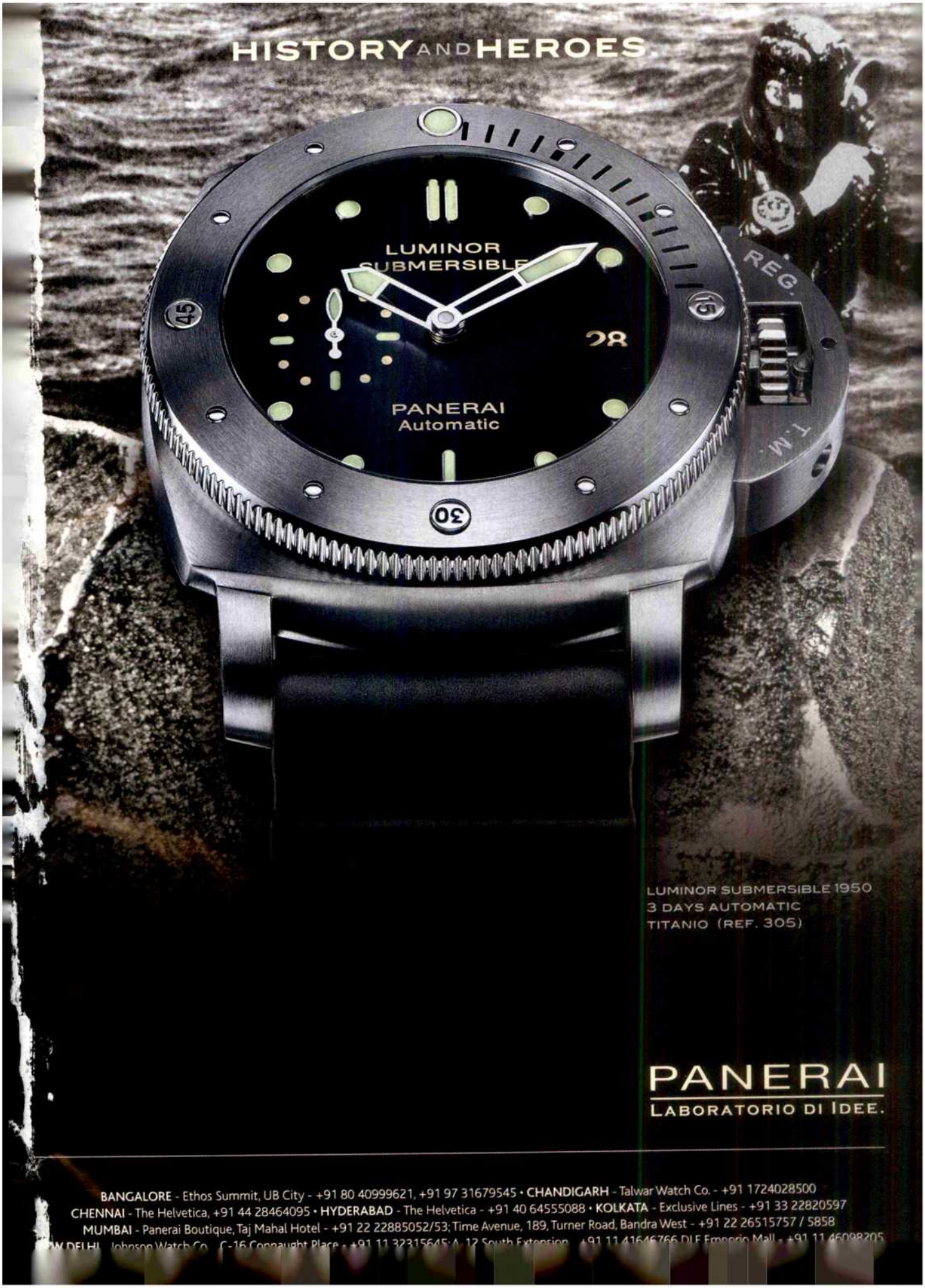
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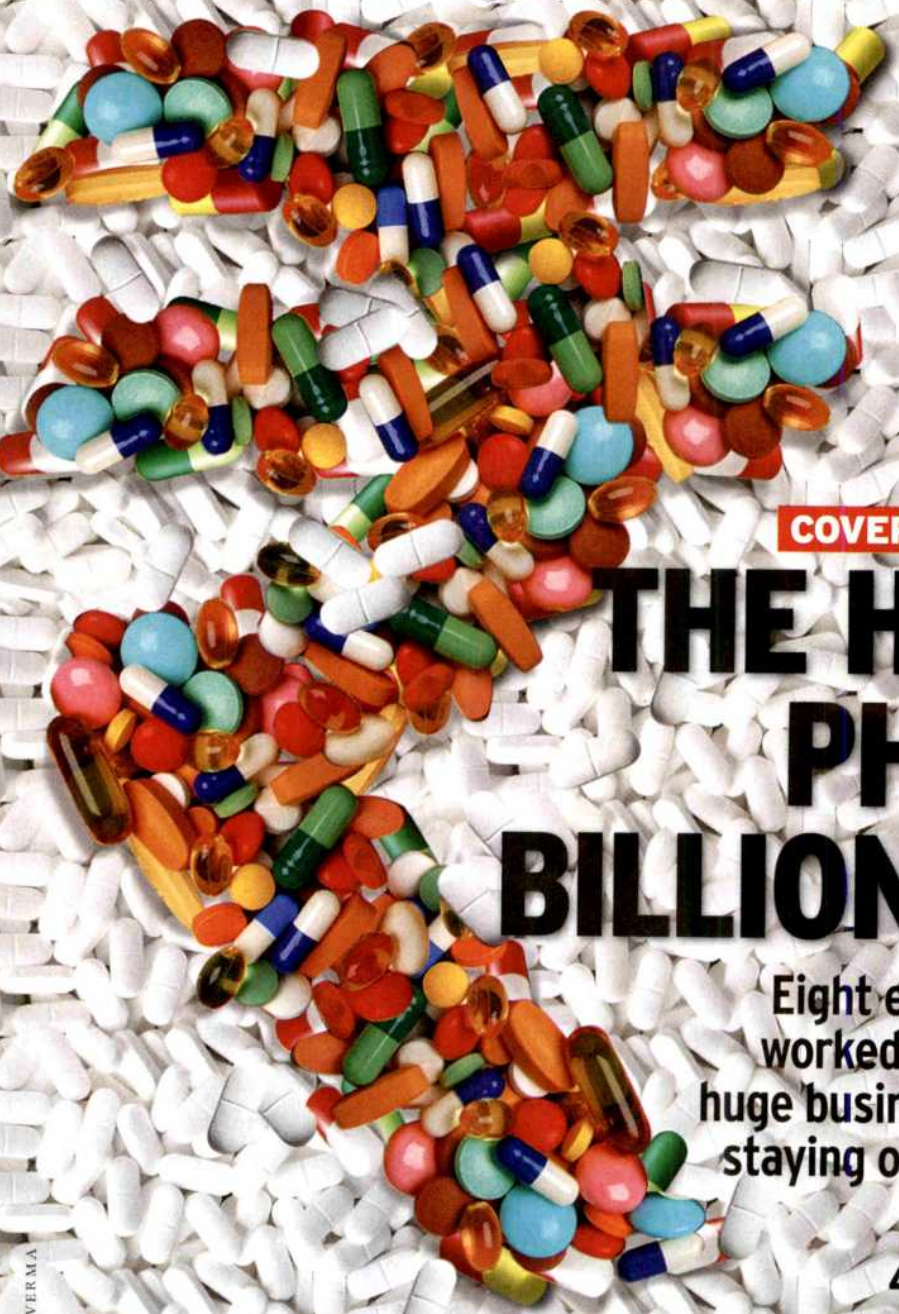

RAJ VERMA

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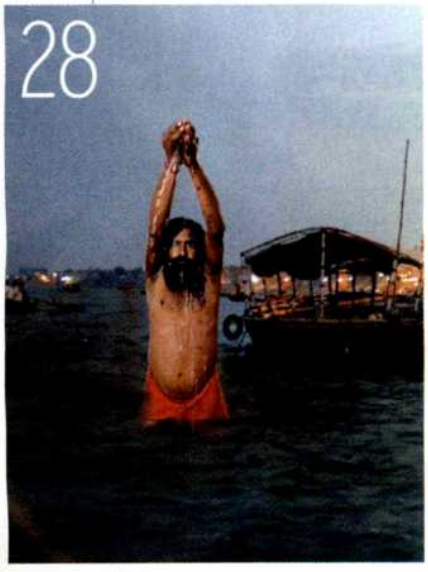

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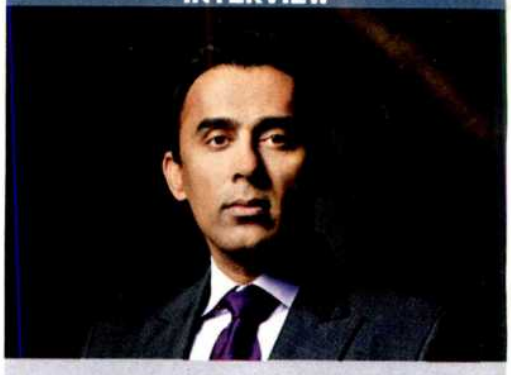

"Cognitive analytics is like predicting the future"
Irfan Khan, President and CEO of supply chain optimisation company Bristlecone, tells **Goutam Das** how his company is working on the cutting edge of analytics.
businesstoday.in/bristlecone-khan

GADGET REVIEW

Good But Not Great
YU Yuphoria is a good phone let down by heating issues and an average camera.
businesstoday.in/gadget-reviews

PERSPECTIVES

Drop Zone
The rupee is staring at a bigger slide unless fundamentals improve, says **Anand Adhikari.**
businesstoday.in/rupee-risks

Luring Investors
Indian content houses are beginning to attract investors, says **Ajita Shashidhar.**
businesstoday.in/content-investors

BT COLUMN

Casual Approach
P.B. Jayakumar says Indian pharmaceutical industry must take corrective action, especially on the R&D front and upgrading quality standards.
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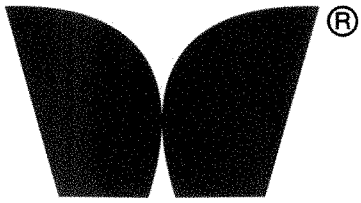

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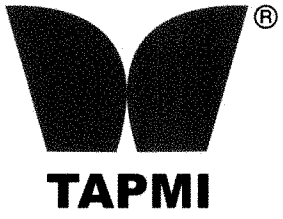

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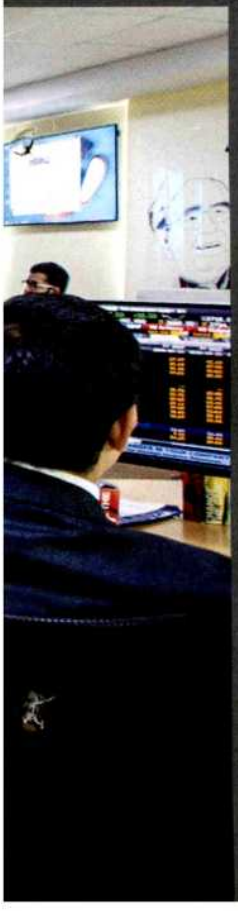
A Simulation Game in progress



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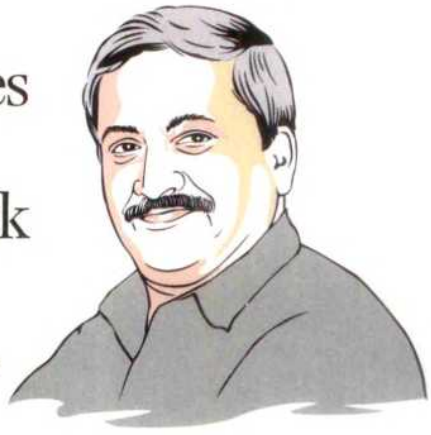
"I found that nowadays the eyes are becoming smaller and smaller. One day I turned it back and found Made in China"



Defence Minister Manohar Parrikar does not much like China-made Lord Ganesha idols. Nor does he much like to curb his expression.

MADE IN CHINA?

KFC plans to sue three Chinese companies for spreading rumours on social media that the fast food chain uses eight-legged chickens. Now that seems beyond even the vaunted Chinese manufacturing capability. One post also apparently referred to six wings on the same chicken. KFC has 4,828 outlets in China.

DEATH OVER DISGRACE

Professor Stephen Hawking will consider assisted suicide if he felt he had nothing more to contribute to the world and was merely a burden, reports *The Telegraph* of the UK, citing an interview with Dara O'Briain, for a new BBC programme. Hawking argues that keeping someone alive against their own wishes is the "ultimate indignity". He also says he suffers bouts of loneliness, because people can be afraid to talk to him or let him answer.

243 MINUTES

The time it took @Caitlyn_Jenner to reach a million followers – the fastest in Twitter's admittedly short history. The account opened with: "I'm so happy after such a long struggle to be living my true self. Welcome to the world Caitlyn." The struggle was the journey of Bruce Jenner, a former Olympic athlete and reality TV star, to becoming Caitlyn, culminating in a *Vanity Fair* cover with the headline, "Call me Caitlyn". The previous fastest to a million was American President Barack Obama's @POTUS, which took five hours.

ME WARRIOR, YOU JAIN

The Indian Diaspora's march to the top in the global corporate order takes a pause. Anshu Jain, co-CEO at Deutsche Bank, quit, besieged by trouble from regulators, investors, and employees – that's pretty much everyone, isn't it? Cisco CTO Padmasree Warrior, perhaps the second most prominent India-born woman in American industry after Indra Nooyi, was the collateral damage as Chuck Robbins took charge in place of long-serving CEO John Chambers. But hope floats. Punit Renjen, from earthy Rohtak, takes charge at Deloitte. Nikesh Arora may someday be the big boss at SoftBank. And, even as Warrior falls in battle, Pankaj Patel gets into the new executive leadership team at Cisco.

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GIFT MEET

WHAT: Stakeholders' meet on IFSC rules in GIFT city
WHEN: June 24

WHAT TO LOOK FOR: The regulations and guidelines for India's first International Financial Services Centre within the Gujarat International Finance Tec-City, or GIFT City, project were unveiled by Finance Minister Arun Jaitley in April. Now, feedback from all the stakeholders including Indian and foreign banks, financial institutions, stock brokers, insurance and re-insurance companies is being sought by the finance ministry and the management of GIFT City, which is being developed as the country's first smart city.

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FESTIVAL OF IDEAS

WHAT: Cannes Lions
WHEN: June 21-27

WHAT TO LOOK FOR: The ad festival is gold standard for creative excellence, and the industry's who's who flock to France to share ideas. The speakers' list includes Wendy Clark, Coca-Cola's top marketing executive in North America, Evan Spiegel of Snapchat, and artist Pharrell Williams.

18

MAT MATTERS

WHAT: Income-tax department reply on MAT
WHEN: June 18

WHAT TO LOOK FOR: The Bombay High Court has directed the income-tax department to file a reply on minimum alternate tax (MAT) notice against global fund management company Aberdeen Asset Management by June 18. The court has directed the tax department not to take any coercive steps against the company till the next hearing on June 23. The court order has come as a relief for foreign institutional investors, who have contested the claims of the tax department over payment of MAT on their past investments in stocks.

15

AAP BUDGET

WHAT: Delhi Budget session
WHEN: Mid-June

WHAT TO LOOK FOR: The Aam Aadmi Party government's first full Budget in mid-June is eagerly awaited as several promises, including opening 500 new schools and emphasis on higher education and vocational training, have been made in the election manifesto. So, education could see an increase in allocation of funds.

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FOCUS

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Hurdles Ahead

India's economy faces harsh global as well as domestic headwinds. By ANAND ADHIKARI

Seven years ago, when the US and Europe were hit by the financial meltdown after the collapse of Lehman Brothers, the rest of the world was debating the decoupling theory. Many in India believed the local economy would not feel a huge impact as it was consumption-oriented and did not rely much on exports. But they were proved wrong as India's economic growth also slowed. Domestic factors such as governance issues, political instability and scams also contributed to the slowdown.

Undoubtedly, India today operates in a more integrated world. The integration is not only restricted to goods and services but also extends to financial integration and the corporate sector. Many big Indian corporate houses have taken the biggest bets abroad where growth of their companies depends upon the revival of the world economy. Similarly, global corporations have big operations in India. In fact, the financial meltdown of 2008 is a reminder of the way global growth could engulf a domestic consumption-oriented economy like India.

At a time when the world is struggling to recover, India is showing a very divergent trend. This is thanks to the new series to calculate gross domestic product (GDP) that revised economic growth from 4.7 per cent in 2012/13 to 5.1 per cent. Similarly, GDP growth for 2013/14 was revised from five to 6.9 per cent. India has emerged as the world's fastest growing economy with its GDP expanding at 7.5 per cent in the fourth quarter of 2014/15, compared to China's 7.4 per cent.

RAJ VERMA

India, however, ended the fiscal with 7.3 per cent. The government has projected GDP growth at 8.1 to 8.5 per cent for 2015/16. But a fortnight ago, ratings firm CRISIL cut its GDP growth predictions from 7.9 to 7.4 per cent for 2015/16 taking into account the likelihood of a weak monsoon. "A second straight year of weak monsoon will decrease the efficiency of India's irrigation ecosystem and hit agricultural output and farmers adversely. This will also have negative implication on rural demand," CRISIL said.

Can India escape the global slowdown? China's growth is expected to fall to 6.8 per cent in 2015 from 7.4 per cent last year. The euro area is still not out of the woods. Greece, Russia and Ukraine have the potential to derail any future growth momentum in the euro zone. The US has also reported disappointing first-quarter GDP numbers as compared to healthy growth in the preceding three quarters. There are now doubts on a US recovery. The International Monetary Fund (IMF) has already slashed its forecast for the US economy. Both the IMF and the World Bank have advised the US Federal Reserve to keep on hold its first interest rate increase in close to a decade until next year. Many say the US recovery was because of the asset purchases under the quantitative easing program and any move to increase rates will send it back to a recession.

A weak global economy would impact India's growth as well, particularly exports. "There is a positive correlation between growth in India's exports and growth in the world economy," says Madan Sabnavis, Chief Economist, Care Ratings. Exports in 2015/16 are likely to be flat, around $310 billion achieved in the previous fiscal year. "Our exports get impacted if the US, Europe, China and East Asia slow down," adds Sabnavis.

Many say the US recovery is a double-edged sword. This is because while it would boost India's exports, it would also put pressure on the stock, debt and currency markets as foreign funds would move their money out of emerging markets. The outflow from equity and debt markets in May has already led to the rupee depreciating from 60 to 64 against the US dollar. Reserve Bank of India Governor Raghuram Rajan has often warned that unconventional monetary easing poses risks to growth. "It is not an industrial country problem, nor an emerging market problem. It is a problem of collective action. The sooner we recognise that, the more sustainable world growth we will have," he said.

GLOBAL CONCERNS

Growth in most major world economies will either stay flat or fall

Countries	2015	2016
China	6.8%	6.3%
Russia	(-3.8%)	(-1.1%)
US	3.1%	3.1%
India	7.5%	7.5%
Euro Area	1.5%	1.6%
Japan	2.2%	2.4%
Brazil	(-1.0%)	1.0%

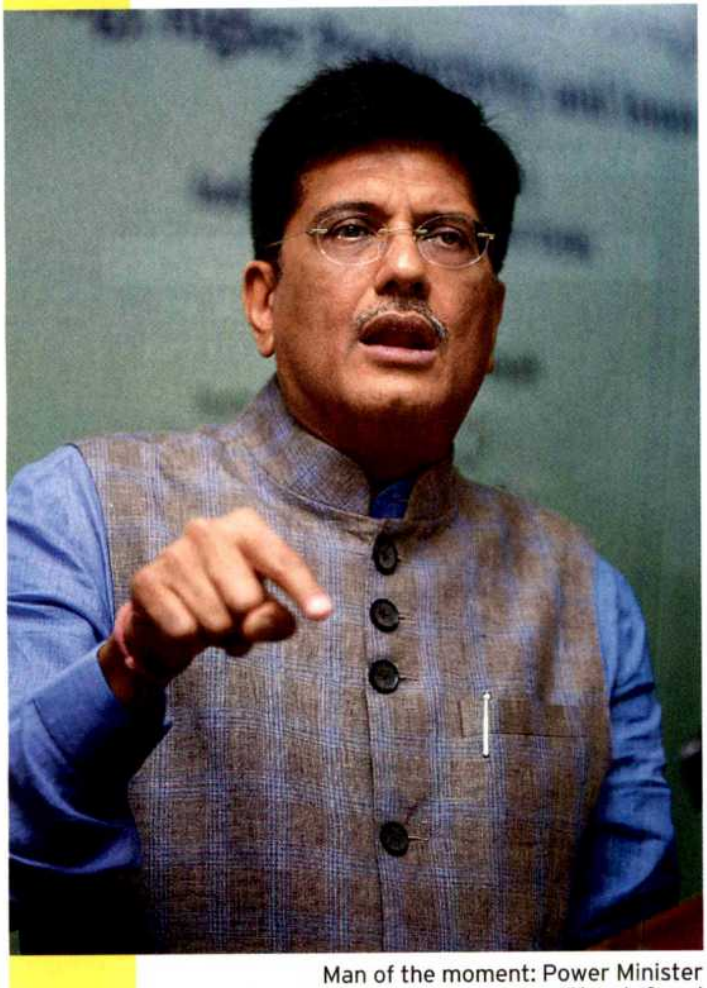
Real GDP figures; Source: IMF

Economists are also not buying the growth estimates of 7.5 to 8.5 per cent for 2015/16. Economists say they can believe in the numbers if the government says GDP growth was 12 to 13 per cent in the booming five-year period from 2003 to 2008 under the new series. "Then the question arises what has brought us down from 12 to 13 per cent to 7.5 per cent," wonders an economist with a leading foreign firm. "Are we addressing those constraints?" ◆

@anandadhikari

A Glass Half Full

Why do states continue to keep citizens under darkness when India generates all the power it needs? By ANILESH S. MAHAJAN



VIVAN MEHRA

Man of the moment: Power Minister Piyush Goyal

MOST STATES ARE GRAPPLING WITH AN ACUTE POWER CRUNCH WHILE THE NATIONAL POWER DEFICIT HAS TOUCHED A RECORD LOW

Just a few miles away from the national capital Delhi, the industry in Uttar Pradesh's Ghaziabad district is forced to take a day off every week because the state power distribution companies don't have enough electricity to supply. It comes at a steep cost, according to various local industry bodies. It is estimated that the accumulated daily losses of the factories in this industrial district on account of the weekly off totes up to a staggering ₹500 crore. In fact, in 2014/15 Uttar Pradesh drew only 35.7 billion units (BU), against entitlement of 38 BU, from the central government generation units when only a few pockets in the state have 24X7 power supply.

Indeed, it is much the same story in different parts of the country. Most states are grappling with an acute power shortage even though Union Power Minister Piyush Goyal has revealed that the national power deficit has fallen to 3.6 per cent in 2014/15, a record low. The reason: mounting losses of state distribution companies. According to the filings with the state power regulators across the country, 21 out of the 29 state distribution companies are reporting losses and the accumulated revenue deficit is more than ₹2 lakh crore. They are not, therefore, willing to buy electricity and, instead, push for unscheduled power cuts.

Crippling power cuts in most states have cast a shadow on the curriculum vitae of Goyal, who enthusiastically flaunted his achievements on the first anniversary celebrations of the Narendra Modi government. Goyal also heads the ministries of coal and renewable power. India has generated 8.4 per cent more power in the past one year, there is additional capacity of 22,566 MW on stream and, on an average, every thermal power plant in the country has more than 20 days of coal stocks, asserts Goyal. He doesn't stop there, and takes the credit for the slide in power deficit.

But, the challenge for Goyal comes from big states like Uttar Pradesh. Most of the state's 20-crore population have to contend with erratic power supply. In his recent Budget, Chief Minister Akhilesh Yadav promised 24 hours of supply in urban areas, and 22 hours of electricity in rural areas by the end of this fiscal. He has also promised to increase the capacity utilisation to 21 GW over the next few years from the current estimates of 10 GW – to many, this is next to impossible. Meanwhile, Prime Minister Narendra Modi

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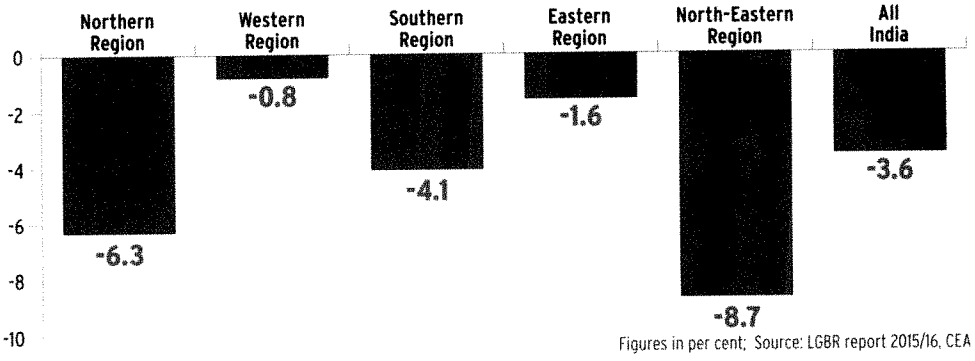
POWER WOES

Region-wise electricity deficit during 2014/15



Figures in per cent; Source: LGBR report 2015/16, CEA

has promised access of 24X7 electricity to all households in the country by the end of his tenure in 2019.

Some states have to contend with lacklustre power output by their generation companies. They blame Goyal for irregular supplies of coal from Coal India. Yadav, for instance, says that power generation in his state has been hit because of the delays by Coal India in supplying the fuel on time, leading to load shedding. States prefer power from their own generation companies because it is cheaper and often available on credit. The latest Load Generation Balance Report published by the Central Electricity Authority, also underlines that UP had failed to meet the peak demand of 16,350 MW in 2014/15 and, this year, it is not expected to do any better. Last year, UP supplied only 13,991 MW, 14.4 per cent short of the power demand.

22,566 MW
Power generation capacity added in the country in 2014/15

65%
Plant load factor of thermal power plants in India

21
out of 29 state distribution companies are making losses

Meanwhile, power distribution companies continued to bleed. Tamil Nadu, Telangana and Karnataka in the south; Jammu and Kashmir, and Punjab in the north; Bihar and Jharkhand in the east, are all in trouble. In UP alone, the accumulated losses at all six distribution companies are more than ₹13,000 crore. And the situation may not improve in the near future.

DISTRIBUTION COMPANIES CONTINUE TO BLEED AND THE SITUATION MAY NOT IMPROVE IN THE NEAR FUTURE

However, there is some cause for optimism. Some state governments – such as Madhya Pradesh and Rajasthan – have firmed up plans to clean up the books of power generation companies. Today, when the country's thermal power plants are operating at 65 per cent plant load factor – the figure was 60 per cent last year – and power is available, states are still pushing for power cuts. The state distribution companies can easily buy cheaper electricity from electricity exchanges. The national grid and Indian Energy Exchange saw prices drop from ₹2.82 to ₹2.56 a unit in the first three months of this fiscal. And at the energy exchange on April 29, electricity was available in the spot market at no charge. This was at peak time, 3.30 pm on a working Wednesday.

This is encouraging as many states are buying costlier electricity from power generation companies at up to ₹5 per unit. They can now access cheaper electricity from the spot market. But state distribution companies bought only 30 per cent of the traded capacity at the exchange largely because of their bad financial health. The biggest beneficiaries of this are the large corporate and industrial houses in India.

The onus, then, is on the central and state governments to focus on measures to turn around the distribution companies. ◆

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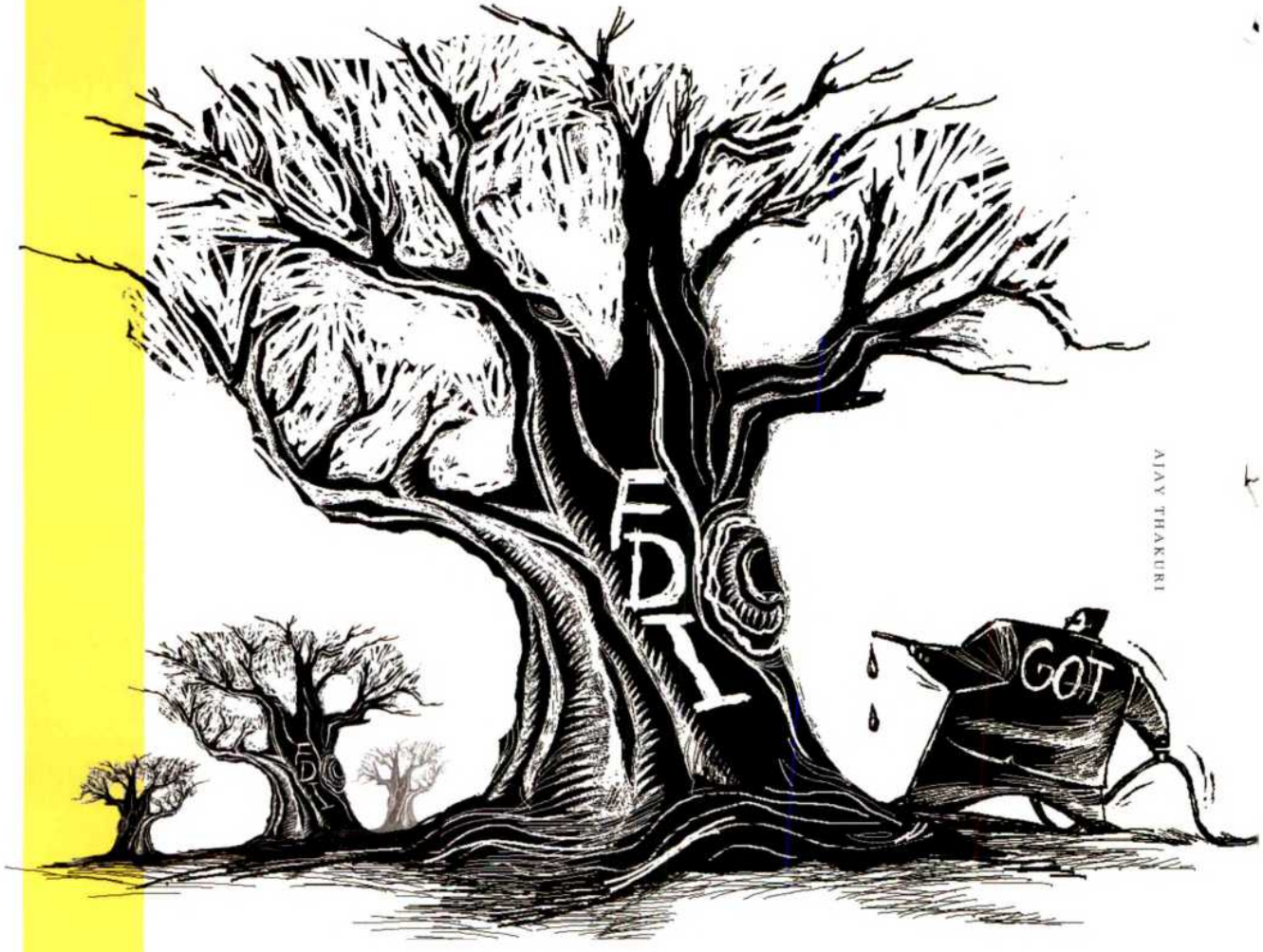

AJAY THAKURI

Chasing FDI

Tweak in NRI norms may not spur capital inflows. By DIPAK MONDAL

NRI INVESTMENT IN EQUITIES OR CONVERTIBLE DEBENTURES WOULD NOW BE TREATED AS INVESTMENT BY RESIDENTS AND NOT FDI

It is seen as a move by the government to boost foreign direct investment (FDI) in the country but may not make a substantial difference on the ground.

The government has now announced that any investments by non-resident Indians (NRIs) on a non-repatriable basis in Indian equities or convertible debentures would be treated as investment by residents and not FDI. "This creates headroom for further FDI in companies engaged in sectors where there is an FDI cap. If a sector, say defence, has an FDI limit of 49 per cent of which five per cent is accounted for by non-repatriable investments of NRIs, then effectively only 44 per cent is open for FDI. Now, with the change in rules, the five per cent is freed for further FDI," says Daksha Baxi, Executive Director, Khaitan & Co.

There are a total of 17 sectors with FDI caps. These include defence (49 per cent), insurance (49 per cent), telecom (74 per cent) and private sector banking (74 per cent).

Meanwhile, the government has also expanded the definition of NRIs to include persons of Indian origins (PIOs) and overseas citizens of India (OCI) cardholders. It expects these steps would "result in increased investments across sectors and greater inflow of foreign

exchange remittances leading to economic growth of the country".

Would the move really deliver the kind of result that the government and some analysts expect? If at all it does, how big could be the impact of these moves? To understand that, we have to first figure out what exactly has changed.

And while there may be a positive buzz around the announcement, the truth is that it is not a major change in policy. The government itself made it clear that the announcement is "meant to provide clarity in the FDI policy as such investment (so far) is not included in the category of foreign investment."

"The recent announcement is just a formal clarification by the government and I don't see it having a significant impact on the flow of FDI. There are very few sectors anyway with an FDI cap," says Shefali Goradia, Partner, BMR & Associates, a tax and merger and acquisition advisory firm.

The relaxation in FDI norms is actually only for investments made under Schedule 4 of Foreign Exchange Management Act (FEMA), which lays down the specific details for investments in shares and convertible debentures by NRIs on a non-repatriable basis (the investment cannot be encashed and taken to a foreign country).

What It Entails

There is little data available that tell us the quantum of investments under Schedule 4 of FEMA which states that shares and convertible debentures can be bought "by way of inward remittance through normal banking channels from abroad or out of funds held in NRE (non-resident external)/FCNR (foreign currency non-resident account)/NRO (non-resident ordinary) accounts". While substantial amount of funds flow into India through NRI remittances or NRI deposit accounts, only a small fraction is believed to find its way into equities and debentures.

In 2014/15, FDI inflows into Indian equities were to the tune of $32 billion, $7 billion more than in the previous year. According to the Reserve Bank of India, total NRI deposits of $14 billion flowed into India in 2014/15 and $38 billion in 2013/14. Obviously, not all the money goes into non-repatriable equity investments. The same is true about remittances that India receives. According to World Bank estimates, India likely received $71 billion in remittances in 2014.

Trigger for Money Laundering?

With any move to incentivise investments from abroad, the question that arises is whether it could lead to money laundering or be used to route black money stashed abroad back to India.

Experts find these fears unwarranted. "Every transaction would be done through proper banking channels, and hence would be properly reported. Therefore, it is unlikely that this particular step would encourage money laundering. And if the income tax department senses anything fishy in any of these transactions, they can always question the person concerned," says Mehul Modi, Senior Director, Deloitte Touche Tohmatsu India Private Limited, a tax consulting and accounting firm.

NRIs with investments or earnings in India have to file income tax returns and declare all their sources of income. Baxi of Khaitan & Co. points out that even if it is assumed that black money from India is re-routed through this channel, ultimately it would come back to the country and remain here as the investment under this route is non-repatriable. "This would not cause any loss to the country," she says.

While it appears that the announcement has reiterated the government's commitment towards making India more investment-friendly, it may not deliver the desired results. ◆

@dipak_journo

THE BIG PICTURE

There have been substantial inflows into various NRI accounts

	Outstanding		Inflows	
	March 2014	March 2015	2013/14	2014/15
NRI Deposits	103,844	115,110	38,406	14,004
FCNR	41,823	42,824	26,635	1,001
NR(E)RA	52,908	62,693	11,468	12,147
NRO	9,114	9,593	303	856

Figures in $ million

Know your product: Customers checking out food items at a supermarket

SHEKHAR GHOSH

How Safe Is Our Food Anyway?

The Maggi controversy brings to fore the need to have a strong food regulatory system. By P.B. JAYAKUMAR and AJITA SHASHIDHAR

INDIA DOES NOT HAVE THE NECESSARY INFRASTRUCTURE AND EVEN EXISTING TEST FACILITIES DO NOT OFTEN MEET GLOBAL STANDARDS

What is more harmful? Worms in a bar of chocolate or high lead content in a popular brand of noodles? Both sound unpalatable, and unacceptable. But our concern, as consumers, is whether brands in India are let off too easily compared to certain other parts of the globe due to the absence of clearly defined food regulations.

The recent Maggi Noodles controversy – after the Uttar Pradesh Food and Drug Administration (FDA) found monosodium glutamate (MSG) and lead beyond permissible limits – has yet again brought to the fore the fractured food regulatory norms in India and raised questions on how safe packaged food really is. All of a sudden, India's food regulator, the Food Safety and Standards Authority of India (FSSAI), also seems to have woken up

from a stupor and has asked state food safety commissioners to verify the quality of various brands of noodles, pastas and macaroni (with tastemaker) – items that are categorised under non-standardised food products.

It is not just about the quality of products. It is also about the lackadaisical regulatory approach to food safety standards and their implementation. The fact that the FSSAI was formed as recently as in 2006, and the rules were enacted only in 2011 – Food Safety and Standards (Food Products Standards and Food Additives) Regulations, 2011 and Food Safety and Standards (Contaminants, Toxins and Residues), 2011 – speaks volumes.

In fact, India is still trying to evolve guidelines for various sections of the food industry. For example, laws for food recall procedures became operational only this year. Further, the food authority approved standards for food additives, standards for milk and milk products, microbial standards for fruits, vegetables, fish and alcoholic beverages on January 16, 2015. It will take some time before these are made into laws. "The biggest challenge in India is that there are no objective norms. And, even the existing norms are ambiguous and conflicting," says Mayank Shah, Deputy General Manager, Parle Products.

According to Rajeev Bakshi, CEO of Metro Cash & Carry Retail, and the former PepsiCo India head, the worst nightmare of his career was the pesticide crisis that had hit the beverage brand in 2001. "The pesticide issue was raised by an NGO based on certain data. The government stepped in later and attempted to bring in regulations," he says. However, R.S. Sodhi, Managing Director, Amul, disagrees: "The standards were always clear. Most companies interpret them as per their convenience and look for loopholes when the regulator questions them."

Sodhi says most food brands in India tamper with ingredients. "When a company launches a brand, it invariably uses good ingredients. In the long run, after sales pick up, they replace it with cheaper ingredients to get cost efficiency." Citing the example of butter, where according to FSSAI standards the product must have 82 per cent dairy fat, salt and water, he claims most brands substitute dairy fat with high levels of hydrogenic fat to produce low-fat butter. Sodhi is, however, not sure whether they adhere to the prescribed limits.

Similarly, the FSSAI has set a cap of 18 per cent sugar content in dairy whitener, but in order to reduce costs, manufacturers increase sugar levels and reduce milk powder levels.

The CEO of a leading packaging company endorses Sodhi's views. He says that a leading confectionary company used a particular preservative beyond permissible levels just to increase the shelf life of its product. "The company could get away with it only because there were no objective norms in place. It would have never dared to use that ingredient in a matured economy which has strict food laws in place."

LAX ENFORCEMENT

Food sample tests carried out across India in the past four years

Year	No of samples	Not conforming	Legal action initiated	Conviction	Penalty (in ₹ cr)
2011/12	64,593	8,247	6,845	764	**NA**
2012/13	69,949	10,380	5,840	3,175	**5.25**
2013/14	72,200	13,571	10,235	3,845	**7.30**
2014/15	49,290	8,469	7,098	2,701	**6.91**

2014/15 figures are for the first six months in respect to all states/UTs.
Data for 2011/12, 2012/13 and 2013/14 are for 14 states/UTs only. Source: FSSAI

A guide to bad nutrition

The other big issue is the lack of a foolproof mechanism to enforce the laws. While the central regulator's job is to frame rules, enforcement, including grant of licences and sales, rests with the states. A few years ago, the central government had thought of strengthening food and drug administration in India along the lines of the US Food and Drug Administration (FDA). But currently, only seven states – Uttar Pradesh, Maharashtra, Madhya Pradesh, Jammu and Kashmir, Haryana, Gujarat and Goa – have proper food and drug administrations. Orissa, Delhi, Kerala and Tamil Nadu have a food

safety department, headed by a food safety commissioner. In the remaining states and union territories, the job of ensuring food safety is entrusted with health and family welfare departments.

Regulatory sources say manpower to monitor the over $25 billion food industry is the biggest issue in most states. As of February 2015, the FSSAI has granted 18,736 central licences, while states and UTs granted another 5,50,808 licences. There is also a registered base of 23,73,484 food business operators in the food sector. Sources say at least an equal number of unregistered FBOs operate in India. It is practically impossible to collect samples and monitor all the units on a regular basis.

Statistics also reveal the pitiable enforcement scene in the country. In 2013/14, only 72,200 food samples were examined across the country. Of this, 13,571, or nearly 19 per cent, were either found to be misbranded or adulterated. The agency initiated action against 10,235 defaulters, but only 3,845 were convicted or penalised. Similarly, in 2012/13, 69,949 samples were examined, and 10,380 were found to be nonconforming. Only 5,840 of the culprits were prosecuted, while 3,175 were awarded penalties or convicted.

Data also reveal that several states are either not equipped or bother to monitor the industry regularly and test samples. Figures for 2013/14 show only one sample was taken and tested in Andaman and Nicobar, six in Dadra & Nagar Haveli, 40 in Daman and Diu, 704 in Goa, 213 in Arunachal Pradesh, 236 in Himachal, 17 in Meghalaya and 66 in Nagaland. Even in states where a large number of samples were analysed, the violators got away. For example, Andhra Pradesh found 716 adulterated or misbranded food samples, but nobody was convicted.

The country does not have the necessary infrastructure for test facilities and even existing testing units do not often meet global standards. There are only 166 approved laboratories that are capable of testing samples collected from the near 24 lakh FBOs. Of this, there are 90 NABL (National Accreditation Board for Testing and Calibration Laboratories) units, apart from around 12 referral labs of repute. But their workload is huge.

"We need to find out what kind of testing apparatus these laboratories have. Most food labs in India do not even have proper apparatus. So, is the testing being done properly?" asks Debashish Mukherjee, Partner, A.T. Kearney.

WHILE THE REGULATOR'S JOB IS TO FRAME RULES, ENFORCEMENT, INCLUDING GRANT OF LICENCES AND SALES, RESTS WITH STATES

THE STANDARDS WERE ALWAYS CLEAR. MOST COMPANIES INTERPRET THEM AS PER THEIR CONVENIENCE AND LOOK FOR LOOPHOLES WHEN THE REGULATOR QUESTIONS THEM

R.S. Sodhi, MD, Amul

The Indian food regulator may be crippled and may take a while to come out of its comatose state, but the Indian consumer has already evolved. He or she is not ready to be taken for granted any longer and the furore over Maggi stands testimony to it. "If you are a great brand you also have a great responsibility towards your consumers. You cannot exploit loopholes in the system to your advantage," says Raghu Vishwanath, Managing Director of brand valuation company Vertebrand.

Just as Hindustan Unilever proactively withdrew its Knorr range of noodles, as it awaits FSSAI approval, Vishwanath says Maggi could also have turned the situation in its favour by assuring consumers that it would reformulate its product. ◆

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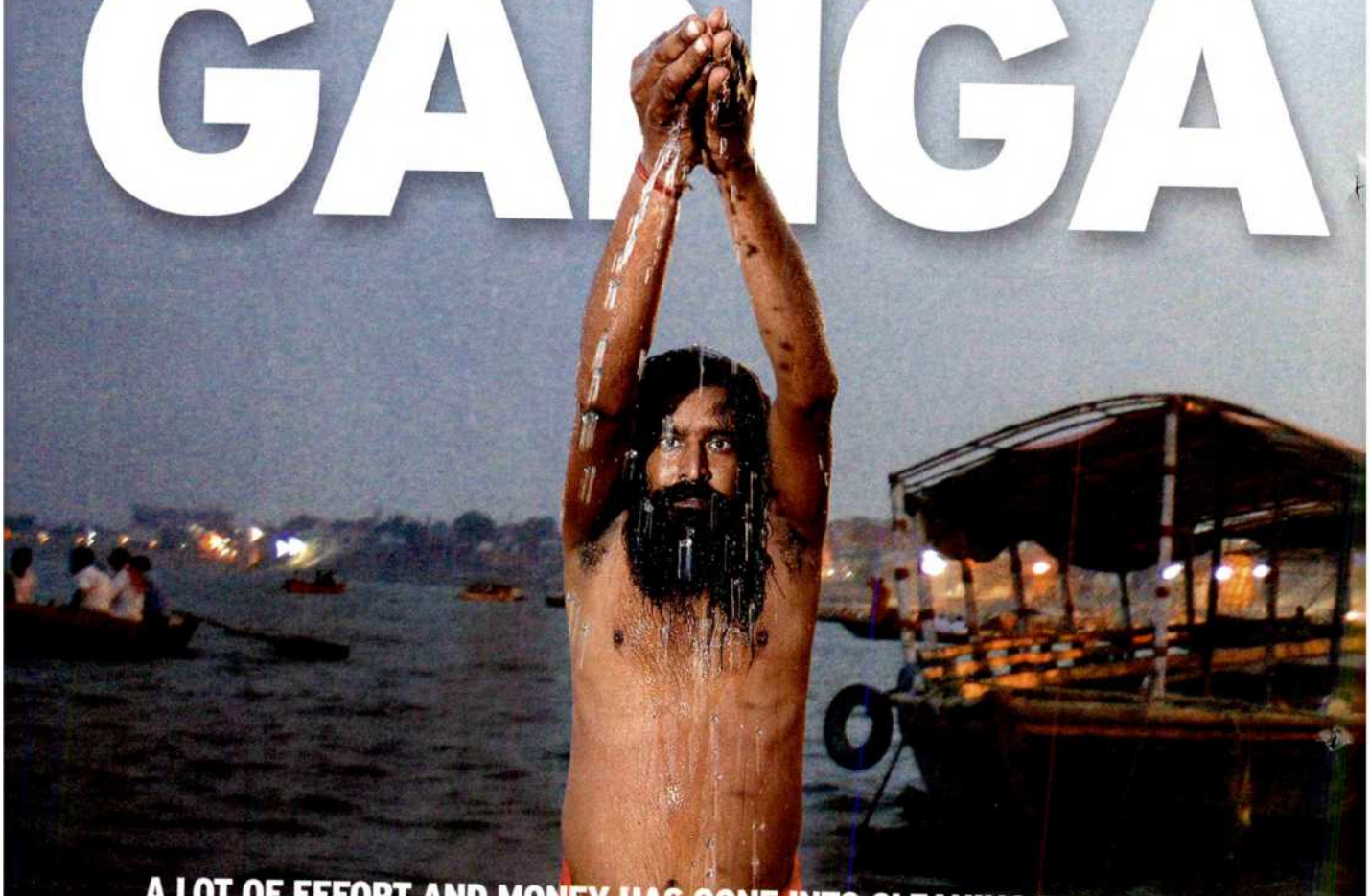


A LOT OF EFFORT AND MONEY HAS GONE INTO CLEANING THE GANGA BUT WITH LITTLE SUCCESS. PRIME MINISTER NARENDRA MODI'S GOVERNMENT HAS NOW LAUNCHED ANOTHER INITIATIVE TO CLEAN THE HOLY RIVER. WILL IT MAKE ANY DIFFERENCE?

Graphic by: **Anand Sinha** Research by: **Jyotindra Dubey**

1) There has been no dearth of funds for Clean Ganga projects

GANGA ACTION PLAN PHASE-I (1985)	GANGA ACTION PLAN PHASE-II (1993)	NATIONAL GANGA RIVER BASIN AUTHORITY (2009)	'NAMAMI GANGE' Union Budget 2014/15	'NAMAMI GANGE' Union Budget 2015/16
₹462cr	₹948cr	₹7,000cr	₹1,500cr	₹2,100cr

2) But pollution levels are still high in Ganga water

Though biochemical oxygen demand (BOD) has come down in many places since 1986, it is still not under the safe level of three milligrams/litre (mg/l)

WATER QUALITY OF THE GANGA

LOCATION	1986 BOD (mg/l)	2012 BOD (mg/l)
Kanpur	8.6	**11.9**
Haridwar	1.8	**9.9**
Allahabad	15.5	**6.5**
Varanasi	106	**5.3**
Rishikesh	1.7	**4.8**
Kannauj	5.5	**4.3**
Patna	20	**2.6**

*Summer Average Values (March-June) Source: Central Pollution Control Board

3) A total of **764 industrial units** in Uttarakhand, Uttar Pradesh, Bihar and West Bengal generate **501 million litres of wastewater** a day that flows into the Ganga

Uttar Pradesh is the biggest polluter with 687 units

Pulp and paper is the No. 1 polluting industry

TYPE OF INDUSTRY	TOTAL UNITS	WASTEWATER GENERATION (MLD)
Pulp & Paper	67	**201.4**
Chemical	27	**97.8**
Sugar	67	**96**
Distillery	33	**37**
Others	41	**28.61**
Tannery	444	**22.1**
Textile, Bleaching & Dyeing	63	**11.4**
Food, Dairy & Beverage	22	**6.5**

SHEKHAR GHOSH

'Namami Gange' is the latest initiative to clean the Ganga

THE PROGRESS MADE IN THE PAST YEAR

₹12,728 crore
Amount earmarked for new initiatives under the Namami Gange programme

₹7,272 crore
Amount kept aside to complete unfinished projects under Ganga Action Plan-I and II

₹4,975 crore
Amount approved for 76 projects to create treatment capacity of 678.23 million litres per day and sewer network of 2,546 kilometre

₹51 crore
Amount raised through Clean Ganga Fund, which accepts contributions from individuals

118
Number of towns where sewerage treatment infrastructure will be created to treat **4,000 million litres** per day of sewage

WHAT'S TRENDING

Fruits of Digital Labour

A set of new social networking sites plan to pay users for their posts and updates. Is this going to be a disruptor?

By **CHITRA NARAYANAN**

RAJ VERMA

We create the content and the social networks book the profits. Facebook had on its rolls 10,082 employees as of March 31, 2015. But apart from its salaried workers, the social network that earned revenues of $12.46 billion in 2015, has 1.23 billion users creating masses of free content for it.

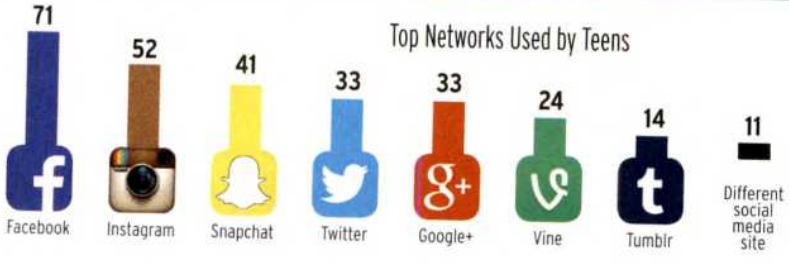
Almost all the big social networks – be it LinkedIn, Twitter or Instagram – thrive on free user generated content.

Now a set of new networks is threatening to disrupt the social economy by promising to share the wealth with their users. There's the much talked about Tsu launched in October 2014 with VC funding of $7 million that has a revenue sharing

DIGITAL DASHBOARD

What Teens Want

Twitter and Google+ are for the oldies, the teens are into Snapchatting and Instagramming. In India, a report from WPP digital agency VML reveals that of Facebook's vast user base here, only 2.4% users are in the 50+ age group



Figures are % of teens (13 to 17 age group) who use social media platforms
Source: Pew Research Center's Teens Relationships Survey, Sep 25-Oct 9, 2014 and Feb 10-Mar 16, 2015

deal with its users. It says it will only keep 10 per cent of the ad revenues it generates with itself and share the rest. Already Tsu claims to have two million users.

Then there's Bubblews, a social blogging site started by Arvind Dixit and Jason Zuccari who met as students at West Virginia University. Users get compensated for every view, like and comment. Though, of course, things are not all that simple. Payment is based on how much your activity provokes some other kind of networking activity on the site. Bubblers, as Bubblews users are called, have to garner 5,000 likes across their posts to be eligible for a revenue share.

There's also Bonzo Me created by New Jersey surgeon Michael Nusbaum which pays 80 per cent of the ad revenues it gets to popular posts.

While Tsu, Bubblews and Bonzo Me pay in conventional currency, there's BitLanders which pays users in cryptocurrency. You earn in Bitcoins and the minute your earnings reach $10, it can be used on PayPal to shop.

All of these sites are interesting experiments. But for the experiment to work, the user base has to be large enough for the advertisers to show interest. Tsu seems to have made headway on that count attracting quite a few cool celebs, especially artistes. Also, the fact that it just took just five weeks for the platform to reach one million users (it took Facebook 10 months) has got people interested in the site.

So, are people making money on this site? On Tsu, while musicians and artists are apparently scoring a hit and already earning dollars, there's even the case of a homeless man who offers life advice through little videos and has rustled up 30,000 followers on the site who has cashed in.

And as Tsu's founder Sebastian Sobczak argues, a payment system also gives copyright protection for creators of original posts. Right now, clever, witty posts tend to go viral and the author of the posts often remains anonymous. But will Facebook and other networks now be forced to follow suit? Twitter and FB influencers do get rewarded – though not by the social network itself but by brands who use their services.

On YouTube, however, the platform is beginning to share wealth. Users can sign up for YouTube Partner Programme and earn 55 per cent of ad revenue on their posts, provided they have got 75,000 hours of being watched over three months.

What's playing out in the Internet world is almost akin to the revolutions that happened offline, when Marxist theories of a more equitable distribution of wealth disrupted several economies. Will this have as much of a profound impact? One has to wait and watch. ◆

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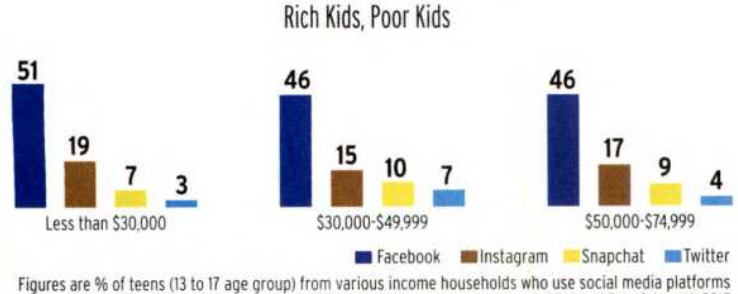

Figures are % of teens (13 to 17 age group) from various income households who use social media platforms
Source: Pew Research Center's Teens Relationships Survey, Sep 25-Oct 9, 2014 and Feb 10-Mar 16, 2015

LISTENING POST

Apple Beats

So, it is official. Apple is back in the music scene. The loud announcement at the Apple Worldwide Developers Conference (WWDC) last week was that the tech giant would be launching a new streaming service called Apple Music that would take on the likes of Spotify and Pandora. Finally, the $3 billion acquisition of Dr Dre's Beats by Apple makes sense. Apple has rebuilt iTunes Radio and the first station called Beats One will be launched in 100 countries. Apple Music will also have a social network feature Connect for musicians and fans to share lyrics, photos and songs. All this will be music to the ears of fans!

Messenger Play

Now you can do more than chat and call on Facebook Messenger. The Menlo Park social networking giant has let the games begin on Messenger. The first of the Messenger games – Doodle Draw - is here, reports TechCrunch. To play the game, you open a chat thread, and tap on the "..." button which will open up the platform's app list. The game is a bit like Pictionary where you draw and your chat partner guesses the object. The big question is: Will adding games increase engagement or will it drive away users?

Troll Busters

Trolls and Twitter seem to go together. But finally the microblogging platform has come up with a possible tool to deal with the problem. Tweeples can now share lists of users they have blocked with others. By letting people export their lists of blocked users, Twitter is facilitating a bulk blocking of trolls, that could wipe out quite a few abusers. But trolls are a problem of pestilential proportions – they will no doubt be back with new tricks!

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Computer Science Engineering Student Wins The Facebook API Prize

Sumanth Reddy Pandugula, a 4th year Computer Science Engineering student at SRM University was part of a three member team that won the Facebook API prize that made it to the finals of the prestigious Facebook World Hackathon Finals to be held in November at the Facebook Headquarters in Menlo Park, California. The team will be pitted against heavyweights like MIT, NUS, Princeton, Harvard, Yale and teams from 13 countries in the finals. Sumanth and the other team members worked on the project called Auto TBT or Automatic Throwback Thursday.

AutoTBT is an application with a single touch/button interface that takes one random picture from the pictures uploaded, tagged by the user and automatically posts one picture to Facebook and Instagram every Thursday with hashtag #AutoTBT. This application serves for the user's surprise because the user does not get to choose the picture.

SRM Student Wins the BRIght Futures Prize at Harvard

Sultan Khetani, a postgraduation student of the Department of Biomedical Engineering at SRM University, won the BRIght Futures Prize 2014 for the research on fighting HIV/AIDS using a low cost flexible microchip. The BRIght Futures Prize is a prestigious award with a cash prize of $100,000 for which more than 200 teams from Harvard and MIT affiliates had competed.

The winning team was selected based on online voting conducted across the world. The team had attracted votes from approximately120 countries worldwide as well as the 50 states of the U.S. The highest numbers of votes were acquired from India and the U.S.

Breaking New Frontiers :
SRM Search Engine A Search Engine with Difference

A team of 70 students from various departments of SRM University have designed a search engine that gives the answers relevant to the keywords rather than a list of links related to the word or phrase searched for. The search engine is live and running, and is in the beta/testing stage and will be ready for public launch in 2015.

SRM UAV Team Develops Unmanned Aerial Vehicle Copters

A team of engineering students from various engineering disciplines at SRM University have designed an autonomous copter for rescue operation during disasters. The cool features of this copter are automatic face and person recognition that helps during the rescue operation. The aircraft is designed for military surveillance and to rescue people who are stuck under building debris and other such disasters. During rescue operation, camera mounted on the quad - copter UAV, is allowed to take the video of the location, which is later fed into the person recognition software. The hovering copter sends the GPS signal of the exact location of the people who are in need of rescue.

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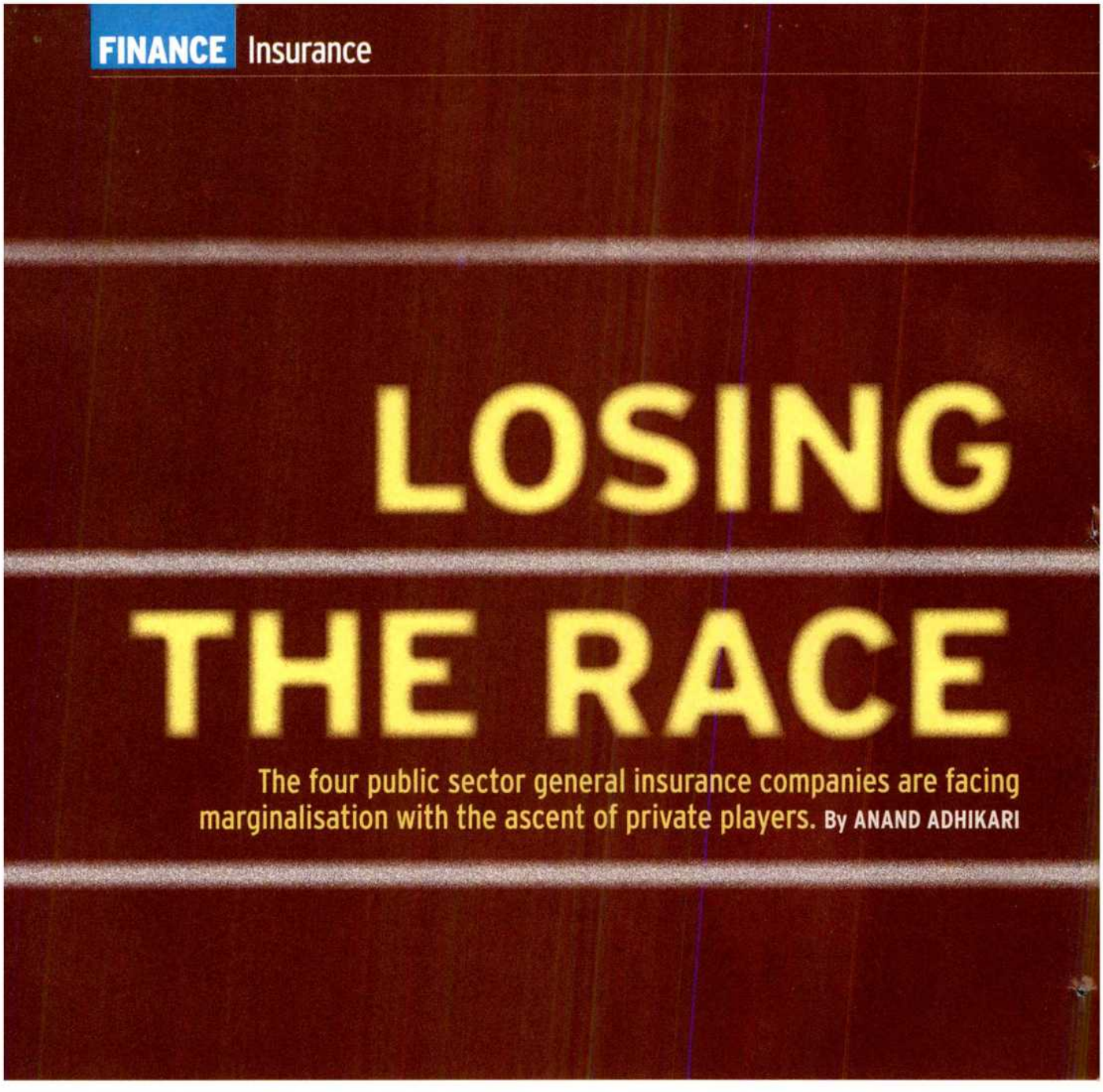
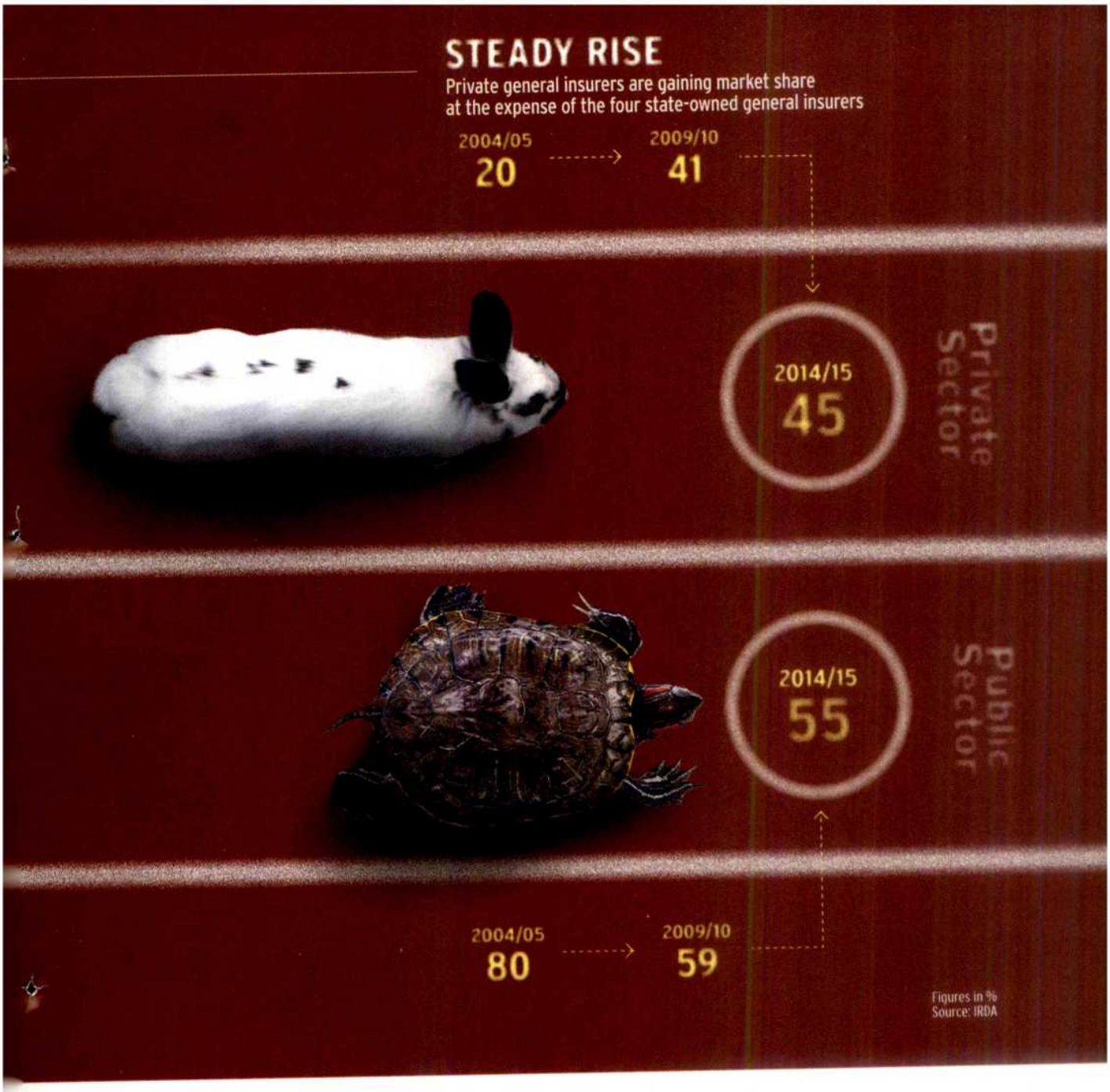


LOSING THE RACE

The four public sector general insurance companies are facing marginalisation with the ascent of private players. By ANAND ADHIKARI

Some 15 years after the mutual fund industry was thrown open to private players, public sector behemoth Unit Trust of India (UTI) lost its numero uno position to ICICI Prudential Mutual Fund in 2006. Today, UTI has fallen further and is in the fifth position in terms of assets under management, behind the mutual fund arms of private sector entities HDFC, ICICI Bank, Reliance Anil Dhirubhai Ambani Group and Aditya Birla Group. This is not the trend across the broad spectrum of financial services businesses. Consider banking and life insurance. State-owned banks and Life Insurance Corporation (LIC) are holding their ground despite the entry of market savvy private players. The PSU banks



enjoy a dominant market share of over 75 per cent in deposits and advances. LIC, too, is sitting pretty with a market share of over 70 per cent in life insurance premiums.

The state-owned general insurance companies, though, appear to be going the UTI way. They are steadily losing ground to the private sector. In the 15 years since the private sector was allowed into the sector, the four state-owned companies – New India Assurance, National Insurance, United India Insurance and Oriental Insurance – have seen their combined market share fall to 55 per cent from 100 per cent. Even as the market itself has grown 7.8 times from ₹10,000 crore in 2000/01 to ₹78,000 crore now.

Many had seen it coming. "The most impressive spectacle has been the foray of the private players," R. Beri had told the shareholders of New India Insurance – India's largest general insurer– as its Chairman and Managing Director in 2003/04. "This (privatisation) has led to the demolition of capitalism's bête noire, monopoly. In only its fourth year of operation, the private players have garnered a market share of 14 per cent – up from about 10 per cent a year ago."

So, how has the dream run of private players sustained over the last decade and a half? A KPMG report has some answers. "The large private sector is posing

the biggest threat to public sector insurance companies due to their more efficient operating models, highly capable talent pool, and significantly higher usage of IT. These (private) players would drive the focus on operational effectiveness, channel productivity, enhanced pricing approaches in order to drive profitable growth," said the report.

Indeed, the private sector is expected to continue making inroads in the general insurance market. ICICI Lombard is all set to displace Oriental Insurance Company from the fourth slot. ICICI Lombard's market share in gross premium at 9.71 per cent is within striking distance of Oriental's 10.09 per cent. Another state-owned giant United India, at 13.75 per cent, is also within reach of ICICI Bank's general insurance subsidiary. So, while all the four top spots, in terms of market share, are still occupied by the public sector companies, they are finding it tough to keep the private companies at bay.

But if LIC has managed to hold on to its market share, why are the state-owned general insurance companies losing ground? "The transactional nature (selling one-year policies) with high service intensity makes this industry more competitive," reasons Sanjay Kedia, Country Head and CEO of Marsh India Insurance Brokers, a leading insurance broker and risk advisor. G. Srinivasan, CMD of New India Assurance Company, explains that LIC has managed to hold on to its market share because of the long-term nature of its products. "Any individual will prefer to go to a government undertaking for his long-term savings. Ours is an annual business where customers don't mind dealing with the private sector," explains Srinivasan. The other public sector general insurance companies refused to comment.

"Whenever a new entrant comes to the market, they also capture market share. We saw a similar trend in banking when new generation private banks were allowed in," says Tapan Singhel, Managing Director and CEO of Bajaj Allianz General Insurance, the second-largest private player. But flexibility of operations and the right business model, with an initial focus on corporate business, appears to have really helped private companies in garnering a large market share in a short span of time.

Indeed, the private sector has been credited with many customer friendly innovations. Bajaj Allianz General Insurance, for instance, introduced cashless claim settlement in motor and health insurance. Similarly, ICICI Lombard, the largest private company, introduced a family floater concept in mediclaim. These product innovations were replicated by others including some of the state-owned companies. Motor and health are the two biggest segments with a share of 48 and 22 per cent in the gross annual premium respectively. Together, the private sector companies are already lead-

CATCHING UP

"Whenever new entrants come, they expand the market and capture market share"

TAPAN SINGHEL, MD & CEO, Bajaj Allianz General Insurance Company

ing in the motor segment with a 53 per cent share. Private companies also appear to be poised to wrest the leadership from the public sector in the fire segment and already have a 40 per cent share.

Already, private players have brought in a lot of differentiation and flexibility in the products on offer. The product basket of general insurers has expanded to include new products including intellectual property protection, Directors and Officers insurance, weather insurance, crop insurance, etc. Consider the example of T.L. Arunachalam, Director at Bharat Re-Insurance Brokers. He once needed a large ticket size health policy for a high net- worth client. Not many companies were offering such policies. "We managed to get it from a private player with a ticket size of ₹1.5 crore," said Arunachalam. There are add-on features in many health policies such as emergency hospitalisation abroad, covering close to a dozen critical illness in India and abroad, emergency response cover including repatriation or emergency evacuation to India, and even bringing back the mortal remains of deceased, etc. In contrast, the state-owned companies only give basic policy of ₹25 lakh and top up of ₹75 lakh.

RACHIT GOSWAMI

"In the past few years risk selection has become a key success factor in the industry"

BHARGAV DASGUPTA, MD & CEO, ICICI Lombard General Insurance

Many suggest that the new distribution model also played a role in increasing the market share of private players. Prior to privatisation, distribution was only through agents. "The private sector has used the broker channel well to reach out to customer," says Arunachalam, who left state-owned New India Assurance when the industry was privatised in 2000. The broking channel today contributes almost 30 per cent in premium mobilisation from the market. Brokers, who mostly do corporate business, generate premiums in liability products, aviation, marine cargo and fire insurance.

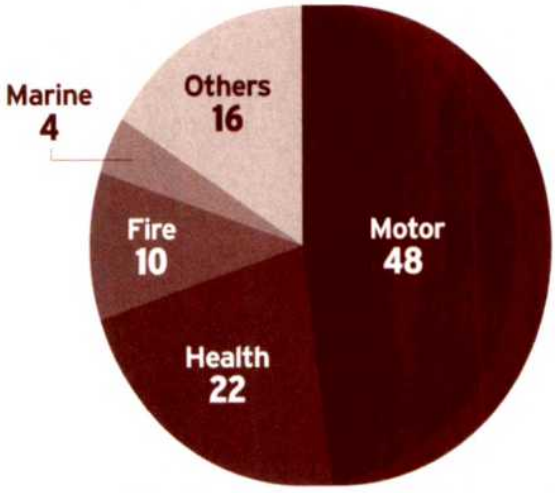
The private sector also created new capabilities in the post detariffication period when general insurance companies were given the freedom to decide premiums. As prices of many products crashed, risk selection – or the level of risk – became very important. "In the past few years risk selection has become a key success factor in the industry," says Bhargav Dasgupta, MD and CEO of ICICI Lombard General Insurance Company. State-owned companies have been struggling in this department. In fact, huge underwriting losses is a key parameter while judging their risk selection skills. For many years, the four general insurers have been making huge underwriting losses, but due to their investment income they have managed to stay profitable. For example, state-owned companies increased their underwriting losses by 6.24 per cent to ₹5,724 crore in 2013/14 while private sector's losses decreased fractionally, from ₹1,830 crore to ₹1,825 crore.

Meanwhile, the combined ratio, which is an indicator of risk selection, shows the private sector is far better than the state-owned companies. Bajaj Allianz has a combined ratio of 99 as compared to New India Assurance's 117 in the first nine months of 2014/15. It is calculated by taking the sum of incurred losses and expenses and then dividing them by earned premium. A combined ratio of less than 100 is considered better as it shows that an insurer is making money after paying the premium and also including the expenses in it.

Then, the private players are also seen as much faster in claim servicing. ICICI Lombard claims to settle

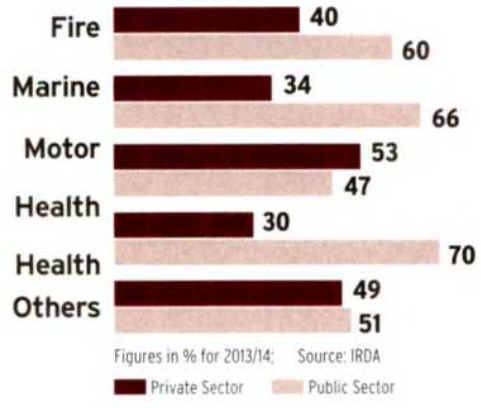
SPLITTING THE PIE

Motor is the largest segment in general insurance...



Figures in % are share in premium (overall) for 2013/14; Source: IRDA

... and it is already dominated by private players



91 per cent of the motor claims in one month while the industry average is 58 per cent. The private sector also took the lead in decentralisation of the claim processing function by using a hub-and-spoke model. "The claim management burden in the private companies shifted to multiple hubs a decade ago. Whereas the state-owned companies have started this decentralisation exercise only a few years ago," says Arunachalam. There has been a lack of empowerment in the state-owned companies, says the CEO of a private insurer. Customers demanding superior service are shifting to the private sector, says the CEO of another private sector company.

Many wonder why state-owned companies are not playing to their strengths. They have a strong brand equity and balance sheets to write bigger deals. New India Insurance was actually the first insurance company, set up in 1919. LIC came much later in 1956. Kedia of Marsh says there are always a set of customers who wants to deal with government companies because of a trust factor. The state-owned players with a huge network of 7,869 offices (private companies together have 2,000 offices) should have expanded their geographical coverage. The four companies, headquartered in four different regions, should have worked in tandem to spread out and not to encroach on each other's territory. Today, the four companies are actually mirror images of each other in terms of product offering and are also competing with each other.

Interestingly, while the private players have gained market share, the general insurance penetration as a percentage of GDP is still very low at 0.78 per cent as compared with life insurance at 3.17 per cent. "The industry grew by 10 per cent last year when economic growth was not much. Today, retail-oriented businesses like health and motor are doing well. Once industrial projects take off, the traditional corporate segment will also pick up," believes Srinivasan of New India Assurance.

Many question state-owned companies' aggression in the group health business, which appears to be a loss-making proposition. In the past few years, the four general insurers have gained a very big market share in the corporate health business. "The private sector has consciously vacated the space. There is a danger of state-owned players piling up losses," says a consultant.

While the government has acted swiftly in the banking space to kick-start reforms, many say the state-owned general insurance companies also needed attention. McKinsey in its latest report has projected the general insurance industry to grow from $13 billion (₹78,000 crore) in premium size annually to $80 billion (₹4,80,000 crore) by 2025. The private sector is expected to corner a major share of this business.

Srinivasan, whose company is the largest in terms of market share, says they have the financial strength in the market. "Our assets base is ₹62,000 crore.We have an international 'A' credit rating . We have infrastructure of offices in India as well as abroad with 2,200 people. We have people who know insurance," says Srinivasan.

But as the competition heats up the top slot, Kedia of Marsh says chasing the topline is dangerous for a risk-based business. "The general insurance business is not a business where your margins are guaranteed. What is important is the quality of business one is underwriting ," says Kedia. And that is where private insurers have to prove that their story is sustainable and profitable as they attain market leadership. ◆

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New-age Lenders

For start-ups, the venture debt money is killing several birds with one stone.

By MANU KAUSHIK

Nilesh Kothari (left) and Rahul Khanna, managing partners, Trifecta Capital

"We lend at rates which we believe are comfortable for the companies to service"

Nilesh Kothari

ANOTHER OPTION: Venture debt is gaining importance in India

Venture debt made its entry into India in 2008

It is used to meet short-term capital requirements of start-ups; ensures that promoters don't have to dilute stake

The average loan size varies from ₹1 crore to ₹25 crore; payback period is two-four years

Some companies providing venture debt get a small stake in start-ups; this improves their internal rate of return

New economy sectors such as e-commerce, health care, clean tech, consumer and IT are the focus areas

The future of venture debt relies on the success of the start-up ecosystem and vice versa

Back in December 2012, Kunal Bahl of Snapdeal was buying time. The e-commerce start-up that he founded with school friend Rohit Bansal was in the middle of a fund-raising round. He had some offers on the table, including from eBay, the US-based online marketplace.

Though Snapdeal had been registering a significant improvement on most parameters – gross merchandise value, web traffic and number of users – Bahl wanted more time so that he could show even better performance and get a higher valuation. This, after all, would have got him more money. But waiting was difficult as the company was burning cash like nobody's business.

It was around this time that Vani Kola, Managing Director of venture capital firm Kalaari Capital, among Snapdeal's early investors, introduced Bahl to Vinod Murali, Managing Director of InnoVen Capital India (known as SVB India Finance at the time). Murali met Bahl, studied the business for about three weeks, and gave a $1.5 million loan. "We gave them flexibility of a few months that allowed them to identify the right [equity] partners," says Murali. In June next year, Snapdeal raised $50 million from investors led by eBay at a valuation of around $500 million. Murali was paid back and the deal closed.

InnoVen Capital is part of a growing tribe of financiers in India who provide venture debt – a new form of financing, typically short term, that is playing the twin roles of a protector and a buffer for cash-hungry start-ups.

Venture debt is a mature asset class in the west. It comes to life 10-15 years after the venture capital market matures. For instance, in the US, venture capital was a 1970s phenomenon. Specialist debt providers began to emerge in late 1980s.

In India, too, the venture capital market grew from $300 million in 2005 to $2.1 billion in 2014, a glut that prompted start-ups to use equity capital from venture funds for all their needs. However, the market has now matured, and there is a realisation among both companies and venture funds about the need for short-term capital.

PHOGGRAPHS BY RACHIT GOSWAMI

The Anatomy

Start-ups need capital, usually a lot of it. For this, promoters typically sell stake to venture capitalists (VCs) or angel investors. Since most face liquidity issues, they rely on venture funding – which requires selling a part of the stake – for short-term needs as well. But selling equity for working capital is not advisable. Of late, there has been a realisation among VCs and companies that short-term capital for things such as salaries, raw materials and running operations should come from either cash flows or debt.

But in India, banks and non-banking financial companies, or NBFCs, are not comfortable lending to start-ups. This is because their lending models are built around collaterals such as machinery, plant and cash flow. Most start-ups don't have these. Also, banks' lending guidelines revolve around asset classes and so they find it difficult to understand new economy businesses. But start-ups have the same needs as established businesses. That's where venture debt firms step in.

"We realised that there is a huge challenge of providing debt to businesses which are zero to four years old. They find it difficult to get short-term money and, therefore, depend on long-term equity capital. Raising equity for meeting short-term requirements is inherently wrong," says Sanjib Jha, CEO and Director at Mumbai-based IntelleGrow, a provider of venture debt that started in 2012. He says equity funding must be for long-term expenses such as buying land or plant, expansion and innovation.

Take Faasos, an online food technology company. In 2014, it had ₹15 crore cash in bank, but that was not sufficient to fund its plans, which included expanding presence to more cities, building a supply chain and setting up a technology platform. It had not envisaged these investments when it last raised equity capital in 2012. In April 2014, it raised ₹6 crore from InnoVen which was used mainly to build the technology platform, including a mobile app. "We didn't want to stop expanding at the expense of doing something else," says Revant Bhate, co-founder, Fasoos. In March this year, the company raised $16 million from venture capital funds.

Like Fasoos, many start-ups are using venture debt to get extra runway between two rounds of equity funding.

Venture debt, just like bank loans, has to be paid back in two-three years. The interest cost is 15-24 per cent, higher than the usual rates of 12-14 per cent, because of the higher risk involved in funding start-ups.

"Borrowing is not easy for start-ups due to their low asset base and weak cash flows. Venture debt is a bridge-gap arrangement," says Shefali Goradia, Partner, BMR & Associates.

Interview with Sanjib Jha of IntelleGrow at businesstoday.in/intellegrow-jha

Once the loan is given, borrowers start paying back – both interest and principal – on a monthly or quarterly basis based on their cash flows (just like equated monthly instalments). Some lenders give a moratorium of three to six months.

One of the biggest advantages of venture debt is that it protects ownership. In the past, start-up founders had little option but to dilute stake to raise capital. This is no longer the case. Assume that a company has to sell a 25 per cent stake for raising $5 million. If it gets access to venture debt, it has an option of raising $4 million equity and $1 million debt so that the stake dilution is only 20 per cent. If the company is valued at $1 billion two years later, the 5 per cent stake the founder has managed to retain will be worth $50 million.

Debt is the Way

While there are hundreds of venture capital funds, the number of venture debt companies is limited. And each follows a different model. Take InnoVen Capital. In 2008, Silicon Valley Bank set up its India arm, SVB India Finance, which provided credit to start-ups without collateral. It was the first venture debt company in India and started around the time the venture capital market was taking off. "You need a stable venture capital ecosystem for this asset class to survive. When we started, venture capital itself was new, and venture debt was unheard of. The first two-three years were difficult," says Murali.

With a corpus of $50 million, it has done around 80 transactions with 55 companies, including Myntra, Freecharge, Practo, Yatra and Firstcry. Its focus areas are digital media, clean tech, financial services, technology, consumer and health care. InnoVen works with over 30 VCs, including Accel Partners, Bessemer Venture Partners, Kalaari Capital and Sequoia Capital.

Singapore's sovereign wealth fund, Temasek Holdings, also got attracted by the potential of the venture debt market and acquired SVB India for around ₹300 crore to expand the venture debt platform to Asia, starting with Singapore.

While equity investments have long tenures (seven to 10 years) and ticket size of over $10 million, the venture debt amount is much smaller. For example, InnoVen's average loan size is $1.5-2 million. Its direct competitor, IntelleGrow, keeps the ticket size below ₹10 crore. State-run Small Industries Development Bank of India (SIDBI) has a cap of Rs 2 crore per investment.

Each firm has taken a different route to tap the market. For instance, InnoVen Capital lends to companies where there is an equity investor. It co-invests or comes right after the equity round. Trifecta Capital, which is in the process of raising ₹500 crore from banks, insurance companies, large family offices and endowments, plans to follow the same model.

"Our debt will be about 20 per cent of the most recent round of equity funding. So, if someone has raised $5 million, we will provide $1 million," says Rahul Khanna, Managing Partner, Trifecta Capital. Trifecta is the country's first venture debt fund (others are NBFCs).

Some venture debt companies lend only to start-ups that have already been funded by VCs. The reason is that VCs are known to scan the huge universe of companies using their strict parameters before funding them. For example, last year, it is estimated that VCs funded some 250 companies after examining over 2,000 candidates. InnoVen picks a handful from this lot. Trifecta will also follow this model in the future. However, IntelleGrow's Jha says his company does not rely on other people. "There's difference between the attitude of VCs and lenders like us," he says. "Equity investors give money in hope that they will be able to exit after five years. They start working towards an exit after three-four years. When I am giving money, my tendency is to start getting it back from next month. My due diligence has to be different," he says.

IntelleGrow and SIDBI fund start-ups which are either equity- or promoter-funded. "We are sector-agnostic. We see if the company is growing fast, has strong management & internal processes and intentions to put good governance structures in place," says Jha, adding that his target market is much larger – about $10 billion – than its competitors.

SIZING UP THE MARKET

3,100
Number of start-ups in India

800
Estimated number of start-ups being launched per year

11,500
Estimated number of start-ups by 2020

₹995 cr
The amount of venture debt deployed or waiting to be deployed

Source: NASSCOM India Start-up Report 2014; BT Research

Interview with Vinod Murali at businesstoday.in/innoven-murali

SIDBI, which has a venture debt corpus of ₹200 crore, has gone a step ahead. It has put in place a structure where it refers [companies] to bodies like NASSCOM and iSpirit. "We don't have the technical expertise to evaluate companies. NASSCOM interviews company managements and understands businesses. We take a call based on third-party judgement and give loans without collateral," says K.I. Mani, General Manager, SIDBI.

Gaining Momentum

How do these lenders make money? For NBFCs, the income has two components – interest spread and equity options. Interest spread is the difference in their borrowing and lending rates. Industry experts say this alone doesn't make venture debt attractive. As a result, the companies have come out with innovative deal structures that allow them to boost returns.

InnoVen, for instance, gets an equity kicker in the investee company. So, if a start-up has a strong exit event such as acquisition or listing, it benefits. The kicker is 10-15 per cent of the loan value. "We don't get equity, it's an option," says Murali. Recently, when InnoVen's portfolio companies – Myntra, Freecharge, Prizm Payment – were acquired, it generated decent returns.

Trifecta's Managing Partner Nilesh Kothari says unlike venture capital funds, which take a lot of risk, they are looking for average returns. "We will lend at rates we believe are comfortable for the companies," he says.

The caution exercised by venture debt firms has kept slippages around 4 per cent, significantly less than the deliquency rate in the venture capital space (40 per cent).

Except Trifecta, which will get non-convertible debentures from investee companies, other firms give term or working capital loans. "The debentures are senior and secured, which means we will get preference in the event of liquidation," says Khanna. What if the investee company goes bankrupt? "Since we are co-investing with venture capital, we expect them to provide support to their portfolio companies in difficult times," he adds.

Even with limited number of players, the competition seems to be intensifying. IntelleGrow's Jha says his balance sheet is small compared to market leader InnoVen. IntelleGrow has plans to expand its balance sheet from ₹225 crore to over ₹1,000 crore in three years.

"We give loans for about three years. Our desire is it to take this to four-five years as our balance sheet expands. We are the only early-stage lender which is leveraged. InnoVen has not leveraged its balance sheet and is entirely funded through equity," says Jha.

Back in 2008, four years before going public, social networking giant Facebook had borrowed $100 million venture debt for building infrastructure, primarily servers. The entire venture debt market in India is roughly twice as big. The Indian venture debt market is yet to come of age. But with more specialised institutions expected to set up shop, this area will see a lot of action in the future. ◆

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THE HIDDEN PHARMA BILLIONAIRES

Eight entrepreneurs who worked tirelessly to build huge business empires while staying out of the limelight.

By P.B. JAYAKUMAR, E. KUMAR SHARMA and VENKATESHA BABU

AJAY THAKURI

In the past decade and a half, two very different sectors of the Indian economy have generated enormous wealth and thrown up a record number of billionaires. One of these is the software services industry, which has been in the limelight for a long time. The other, the pharmaceutical and healthcare sector, is only now beginning to garner the kind of attention that it has long deserved.

Between 2005 and 2013, the pharma industry alone has more than doubled – moving up from $6 billion to over $12 billion in revenues. By 2020, it is expected to be $55 billion in size. The hospital – or healthcare – industry is poised to grow to $100 billion by the end of 2015 and $280 billion by 2020. These projections are driven by some fundamental facts. For one, despite having a vast pharma/healthcare industry, only half of the country's rural population is covered by the sector; two, thanks to the long gestation period of pharma companies, the entry barrier is very high, which makes the successful enterprises even more valuable; three, domestic pharma majors are being eyed by global pharma and healthcare companies for their obvious strengths in generic drug development and extensive domestic market reach; four, the global pharma industry is in a flux as stricter norms by drug regulators is leading to fewer and fewer molecules being approved. That is putting drug inventors under enormous strain. At the same time, governments around the world are beginning to favour generics – the strength of most Indian drug companies -- for greater

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affordability. And finally, as Indian average income keeps rising and the lifespan increases, the middle and upper classes are spending more on healthcare than ever before – and this will only keep rising in the future.

In March this year, the phenomenal rise of the pharmaceutical sector in India was hammered home when Dilip Shanghvi, the mild mannered and low key founder of Sun Pharma, found himself in the spotlight for having become the richest man in the country, displacing Mukesh Ambani of Reliance Industries.

But while Shanghvi found himself as the most prominent face of the pharma industry in the list of Indian billionaires, he was by no means alone. Today, the pharmaceutical and healthcare industry accounts for a quarter of India's 100 richest families. Like Shanghvi, some of them have become household names – Ajay Piramal, who sold the formulation division of Piramal Healthcare to Abbott for $3.7 billion in 2010, the Singh brothers of the Fortis healthcare chain, who sold pharma firm Ranbaxy to Daichhi Sankyo (since then, the latter has sold it to Shanghvi), the Reddy family of Dr Reddy's Laboratories, Dr Prathap Reddy of Apollo Hospitals, Deshbandhu Gupta of Lupin, Y.K. Hamied of Cipla, Cyrus Poonawala of Serum institute, and Kiran Mazumdar-Shaw of Biocon, to name a few.

Most of them started with very little capital and resources. And all of them persevered through the bad times of the industry

But this story is not about them. It is about eight other pharmaceutical and healthcare entrepreneurs who have built significant empires. All are estimated to have a networth well in excess of $1 billion, but keep an exceedingly low profile. Some of them go to great lengths to avoid attention – and have not given interviews to anyone in many years. Others have kept their companies private just to avoid the attention that a listed company founder tends to get. They all have one thing in common: Within the pharmaceutical industry, they are all known for making astute choices, finding niches that others had ignored, building scale and taking audacious bets. For instance, when Murali Divi started out on his own, he decided to focus only on bulk drugs so that he could marshal his meagre capital in the best possible manner. Mankind Pharma's Ramesh Juneja decided to sell in small towns and villages when others were focusing on big cities.

Most of them started with very little capital and resources. And all of them persevered through the bad times of the industry. Some of them have become world leaders in their specific areas and niches.

Their passion is unmistakable. The promoter of Alkem Laboratories, Samprada Singh, is 89, but still attends office six days a week. And they are not interested in just accumulating wealth. Dr Azad Moopen of DM Aster Healthcare has vowed to give one-fifth wealth for charity.

BT arrived at the listing after an elaborate quantitative exercise. The wealth of promoters of listed companies such as Aurobindo and Divi's Labs was a simple calculation of the market value of their equity holding in pharma/healthcare companies promoted by them. For the unlisted companies, we depended on consultants and private equity firms and other rankings: Read on...

Ahmedabad-based Intas, India's 12th-largest pharmaceutical company by revenue, has extensive presence in the domestic market. However, its promoters keep a low profile, whether it is the 81-year-old Chairman, Hasmukh K. Chudgar, or his two sons, Vice Chairman Binish Chudgar and Managing Director Nimish Chudgar.

In 2014, Singapore's Temasek Holdings bought a 10.16 per cent stake in the company from private equity investor ChrysCapital. Dealmakers say Temasek paid ₹880 crore for the stake, valuing the company at over ₹9,000 crore. The price was 20 times what ChrysCapital had invested. This made it one of the most profitable investments in India's pharmaceutical industry.

"It was an excellent deal for ChrysCapital with Intas growing revenue at 27 per cent compounded annual growth rate (CAGR) since the investment in 2006," says Sanjiv Kaul, Managing Director, ChrysCapital.

"Our revenue was ₹5,150 crore in 2014/15," says Binish, who has been guiding Intas since the early nineties. While he focuses on strategy, his brother oversees operations and manufacturing. Intas earns about 55 per cent revenue from the international market, mainly the US and Europe. "Our exports have grown 40 per cent a year for the past five years," says Binish.

One differentiator for Intas has been Binish's push to tap into global markets early. In 1996, he set up a world-class plant in Ahmedabad. In 2001, Intas started exporting to Europe and

Banking on Biologics

Early entry into Europe and development of biologic drugs has helped Intas become the country's 12th-largest drug company

Keeping a low profile: Binish Chudgar

SHAILESH RAVAL

INTAS PHARMACEUTICALS

PROMOTERS
Chairman Hasmukh K. Chudgar, Vice Chairman Binish Chudgar

STARTED
1976

BUSINESS
Finished formulations and biologics

KEY FACTS
CAGR growth of 21% in past five years.

ESTIMATED WEALTH
$2.73 billion

Source: BT Research

was among the first Indian generic companies to enter developed markets. The company is making huge investments in biologics. "We have invested over $125 million to develop and enhance our biosimilar capabilities over the past eight years," says Binish. Intas has the largest number of indigenously developed biosimilars, eight, in the domestic market. Another six-seven are in the pipeline.

Intas was the first company in the world to launch a nano particle-based targeted delivery Docetaxel drug DoceAqualip. It is an innovative chemotherapy molecule designed to reduce the drug's hypersensitivity among cancer patients.

It has filed for listing twice in the past. "We may look at an initial public offering in the next three-four years. It could be earlier if we make a significant acquisition in the US or Europe," says Binish.

Change Agent

P.V. Ramaprasad Reddy's hard work has taken Aurobindo places. The company is now looking at niche areas for growth

Workhorse: P.V. Ramaprasad Reddy

PHOTO COURTESY: LIVEMINT

To those who have seen Aurobindo Pharma and its co-founder P.V. Ramaprasad Reddy over the years, one thing is clear – the company, founded in 1986, is now more visible in terms of growth, size and a swank office in Hyderabad, while Reddy is more publicity shy and behind-the-scenes than he was in early growth years in the company's purely functional office in the city's Ameerpet area.

Of course, he is closely involved in the business, though he has chosen to locate himself in the US, where the company is expanding its business. While his designation is now non-executive director, he still leads the company's strategic planning initiatives.

Those who have known him for years vouch for his hard work and focus. "He has displayed an ability to learn along the way. He never knew technology but learnt it. He used to believe he could do everything himself and did so for a long time but has now gone the other way and professionalised the company," says C. Krishna Prasad, Chairman and Managing Director of Granules India, a fast-growing pharmaceutical company in Hyderabad with customers in over 60 countries.

Aurobindo was founded in 1986 by P.V. Ramaprasad Reddy and K. Nityananda Reddy (the two are related as Nityananda is married to Ramaprasad's cousin and Ramaprasad's son is married to Nityananda's daughter). They named the company Aurobindo as its first factory was in Pondicherry, the adopted home of Sri Aurobindo.

The company started with bulk drugs, its mainstay for over two decades, and is now pursuing a strategy to move up the value chain. About six years ago, bulk drugs – also called active pharma-

Betting on bulk drugs: Murali K. Divi

AUROBINDO PHARMA

PROMOTERS
P.V. Ramaprasad Reddy and K. Nityananda Reddy

STARTED
1986

BUSINESS
Bulk and finished drugs.

USP
Moved from being a largely bulk drug producer to formulations. It is now focused on niche high-margin therapy segments.

ESTIMATED WEALTH
$2.26 billion

Source: BT Research

ceutical ingredients – accounted for nearly 60 per cent revenue, while finished drugs, or formulations, contributed the rest. Now, the bulk of revenue comes from finished drugs.

It is also looking at niche areas for growth. For instance, it is focusing on injectibles and limited-competition products, particularly those that cater to select segments such as cancer where profit margins are higher.

Other than that, it sees growth in areas like penems and controlled substances. Penems are a new class of antibiotics while controlled substances are medicines with narcotic products that are used in areas like pain management.

Margin Play

Murali K. Divi has leveraged chemistry skills to earn high margins in the bulk drugs business

Kallam Anji Reddy, the founder of Dr Reddy's Laboratories, in his memoirs, *An Unfinished Agenda: My Life In The Pharmaceutical Industry*, released nearly two years after his death, talks about several business associates. One person to get a special mention is Murali K. Divi, the founder of Divi's Laboratories in Hyderabad. Reddy describes Divi as "a very good chemist" who "worked extraordinarily hard" and goes on to say that "he had the kind of zeal that makes for a successful entrepreneur." Though he has been critical of Murali Divi – the two had split after a long association – there is little doubt that Divi knew early on that since chemistry is amenable to process innovation, leveraging it could give him an edge.

Divi's has banked on the chemistry skills of its researchers to attain market leadership in select products. Its focus is on bulk drugs, also known as active pharmaceutical ingredients or APIs. For example, last year, L.

DIVI'S LABORATORIES

PROMOTER
Murali K. Divi

STARTED
1990

BUSINESS
Active Pharmaceutical Ingredients and intermediates.

USP
Exports constitute 87 per cent of sales; about 73 per cent sales are from markets in North America and Europe.

ESTIMATED WEALTH
$1.93 billion

Source: BT Research

Kishore Babu, Chief Financial Officer, Divi's, had told *Business Today*: "In dextromethorphan (a cough suppressant) and naproxen (an anti-arthritic), we supply 60 per cent of the world's requirement and have markets in the US and Europe." The two contribute around 25 per cent to the company's revenue.

Divi's has few directly comparable companies, with its standalone API focus. However, some analysts compare Divi's to Sun Pharma before the Dilip Shanghvi-owned firm acquired Ranbaxy given the more than 30 per cent, and sometimes 40 per cent, margins Divi's earns. This is creditable considering that Sun operates in areas where margins are generally healthy while Divi's works in a more challenging and low-margin API business.

The company is now working on a big expansion plan, which may limit margin expansion for some time. Arvind Bothra and Amey Chalke, analysts at Motilal Oswal, said in a report on January 31 that while the revenue outlook was bright, margin expansion looked unlikely. "The management remained confident about 18-20 per cent revenue growth for 2015/16 on the back of a healthy order book. Divi's has announced a ₹500 crore expansion at a new facility in Kakinada in Andhra Pradesh, likely to be commissioned by 2016/17. Operating margins are likely to be maintained at 37 per cent levels due to capacity addition restrains."

Murali Divi's two children have been working actively in the company with his son handling marketing for the last 10 years and the daughter taking control of the crucial areas of procurement and finance. The company was in the news last year when analysts talked about Ranbaxy having possibly tied up with Divi's as an API supplier for its generic version of Novartis anti-hypertension drug Diovan in the US. Divi's officials, however, would not comment on this.

Soldiering On: Samprada Singh

RACHIT GOSWAMI

Business Drive

Samprada Singh has put Alkem among the top 10 domestic drug firms

Even at 89, Samprada Singh, Chairman of the Mumbai-based Alkem Laboratories, attends office six days a week. So does his brother B.N. Singh, 14 years younger. It is their 40 years of hard work that has put Alkem among the top 10 domestic pharmaceutical companies in the country.

Today, 14 brands of Alkem are among the top 300 selling drugs in the ₹89,000-crore domestic pharmaceutical market. Its anti-bacterial brand Taxim-O (cefotaxim) has sales of ₹167 crore a year. It was the first drug to cross sales of ₹100 crore in India. "We did around ₹3,200 crore revenue in 2014/15," says B.N. Singh, Managing Director.

ALKEM LABORATORIES

PROMOTERS
Chairman Samprada Singh, MD B.N. Singh

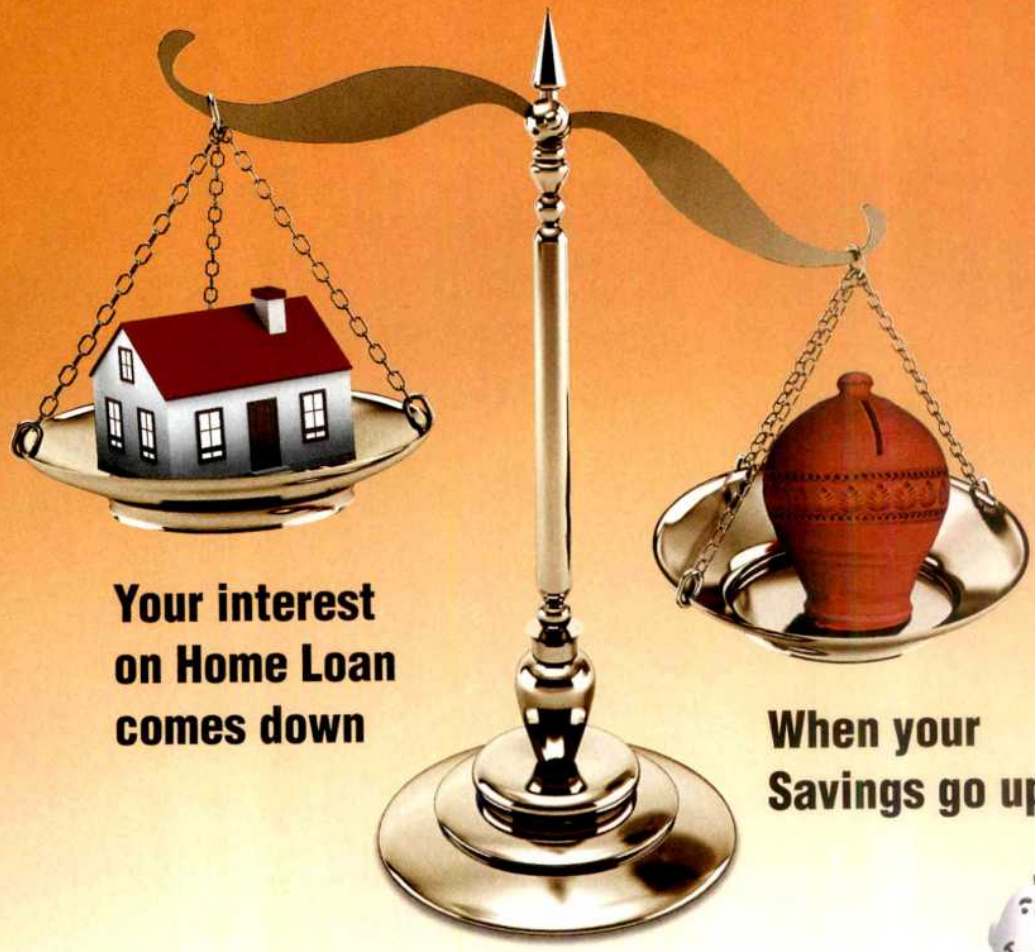
STARTED
1973

BUSINESS
Pharmaceutical finished formulations

USP
14 brands among the top 300 drugs in India; growing at 20% a year for last six years.

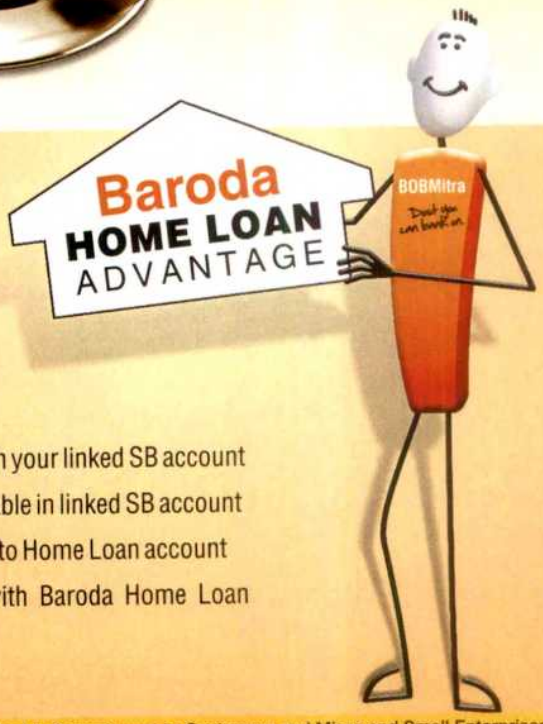
ESTIMATED WEALTH
$1.69 billion

Source: BT Research



Your interest on Home Loan comes down

When your Savings go up



Home Loan linked with Saving Bank (SB) Account

- Save interest on Home Loan account upto balance in your linked SB account
- Withdrawal permitted to the extent of balance available in linked SB account
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This growth has a lot to do with the vision and passion of the two brothers. Born in a middle-class family of farmers in a village in Bihar's Jehanabad district, Samprada Singh jumped into the Indian freedom movement at 15 and was part of a mob that torched a police station near his village. He graduated in commerce from Gaya College and took up farming before trying his luck selling umbrellas. After this, he started a medical store with a partner, and later extended the business by entering drug distribution. In 1970, he decided to enter drug manufacturing and moved to Mumbai with his brother to start a firm with a partner. That did not work well. After three years, he founded Alkem to make Broadicillin and Metron. Five years later, Alkem opened a factory at Taloja in Navi Mumbai and started making about 12 drugs. The big break came in 1989 with the launch of Taxim. It is No. 1 in the anti-infective market and second in anti-osteoporosis and multivitamin segments. It earns over ₹700 crore from sales in 48 countries, including in the US, Europe, Australia and Africa.

Samprada Singh says Alkem has been growing at over 20 per cent for the last six years, higher than the industry average. He says next big growth driver will be exports. Alkem has already done three acquisitions in the US and Australia, and has over 100 drugs under development, with 50 pending approval in the US, the EU and Australasia markets. The company is also preparing to launch generic versions of off-patent biotech drugs. "Our plan is to make Alkem a billion-dollar company," he says.

Alkem is also planning a stock exchange debut. It has appointed Nomura and Axis Capital as lead bankers for a planned share sale, likely this year, to raise between ₹1,500 crore and ₹1,800 crore.

Doctor of the Gulf

One of the richest Indians in West Asia, Moopen has healthcare solutions for one and all

Healthcare for all: Azad Moopen

ASTER DM HEALTHCARE

PROMOTER
Dr Azad Moopen

STARTED
1987

BUSINESS
Network of over 175 facilities includes hospitals, diagnostic centres, pharmacies and medical colleges in India and West Asia

USP
Developing a chain of large hospitals in India

ESTIMATED WEALTH
$1.54 billion

Source: BT Research

Dr. Azad Moopen did MBBS from Calicut Medical College and completed his MD in 1982 before he started teaching at the institute. Five years later, he visited Dubai on a philanthropic mission. "Medical care facilities were inadequate in Dubai and I thought of starting a clinic there. The plan was to be there for just two years," says Moopen. Twenty-seven years later, Moopen's DM Healthcare network has over 175 facilities, including hospitals, diagnostic centres, pharmacies and medical colleges, across West Asia and India.

Moopen's success has a lot to do with the branding of healthcare facilities along the lines of various income groups. His Aster brand caters to the middle-income group. Medcare is a high-end brand catering to the upper segment while Access targets lower-income groups. "It is like travelling from one destination to another in economy, business or first class of an airplane," he says. In 2001, he set up a 600-bed hospital in Kozhikode under the MIMS brand. Two more are coming up in Kannur and Perinthalmana. The Wayanad Institute of Medical Sciences, a 1,000-bed facility, and a medi-city in Kochi, are the other feathers in his cap. While the company plans a pan-India presence, including centres at Pune, Bangalore and Hyderabad, its global plans include Jordan, Kuwait, the Philippines and Bahrain.

All in the family: (from left) Rajeev, Sheetal, Ramesh and Arjun Juneja

VIVAN MEHRA

Thinking Small to Grow Big

Focus on rural and semi-urban regions gives Mankind an edge over its Indian peers

It is an all-family affair at Mankind, the fifth largest and fastest-growing Indian drug company in terms of revenues. The company was launched in 1995 by Ramesh Chandra Juneja, the Chairman, along with his brother Rajeev, the CEO, and sister Prabha Arora, the MD. Prabha's son Sheetal and Ramesh's son Arjun have recently been inducted as MD and Director-Operations, respectively. "The 11,000 employees of Mankind are like a family and all of them have my mobile number," says Rajeev.

However, the birth of Mankind was from a rift in the family. Ramesh, a science graduate who had joined Lupin Laboratories as a medical representative in 1975, first went on to start Bestochem with his two brothers in 1983. Ten years later after a split with one of them, he launched Mankind Pharma.

Mankind started with just ₹50 lakh and a small factory in Gurgaon. Within one year it posted revenues of ₹4 crore. In the following five years it jumped to a whopping ₹2,000 crore. Mankind is said to be valued at over ₹15,000 crore. According to recent news reports, private equity fund Warburg Pincus has offered to buy ChrysCapital's 11 per cent stake in the company for $250 million. If the deal happens, ChrysCapital will make over 15 times its investment.

While his peers were looking at export opportunities, Ramesh decided to target local markets. "We were a

MANKIND PHARMA

PROMOTERS
Chairman R.C. Juneja, CEO Rajeev Juneja, MD Prabha Arora

STARTED
1995

BUSINESS
Drug formulations and over-the-counter products

USP
13 products have sales of over ₹100 crore; 61 drugs are No.1 in their categories.

ESTIMATED WEALTH
$1.53 billion

Source: BT Research

young firm and lacked adequate capital to invest for exports," he says. Mankind has been aggressively tapping rural and semi-urban markets with its wide basket of low-cost drugs. Tier-I cities contribute only 40 per cent to revenues.

Mankind's dominance in the market is evident from the fact that 61 products of the company rank first in their categories, 47 are at the second spot and another 94 are in the top five in terms of sales. Its antilethargy drug Nurokind and antibiotic Moxikind have annual sales of over ₹200 crore each, while its erectile dysfunction drug Manforce earns over ₹250 crore a year.

"We have 16 plants in Himachal Pradesh and are constructing one in Udaipur. Around 90 per cent of our manufacturing will soon be our own," says Sheetal. The company is also planning to launch patented drugs of multinational pharma companies in the Indian market and has started exporting its products to developing markets, including Africa. It has witnessed growth of 20-25 per cent for the past five years. "We should be having ₹4,200-crore turnover next year," he adds.

Taking MNCs Head On

Focus on meeting global standards has set the Suranas apart

MICRO LABS

PROMOTERS
Ghewar Chand Surana, CMD Dilip Surana

STARTED
1973

BUSINESS
Branded drugs and APIs

USP
Posted ₹2,500 crore revenue in 2014/15 with 40% coming from global markets.

ESTIMATED WEALTH
$1.49 billion

Source: BT Research

Reverse engineering: Dilip Surana

NILOTPAL BARUAH

In 1963, a young man left Balrai, a tiny hamlet 15 km from Pali in Rajasthan, and took up a job at a pharmaceutical distribution company in Bangalore. After eight years, Ghewar Chand Surana decided to start out on his own and took up a marketing and distribution contract for Delhi-based La Medica. When the company failed, Surana decided to get into manufacturing drugs. He borrowed ₹1.25 lakh to set up his own facility in Chennai in 1973. Micro Labs was born.

From day one Surana was clear about one thing: Micro Labs would get into product categories dominated by multinationals instead of products where competition from local players would be intense. He decided not to play the price game

or emphasise on volumes and, instead, focused on profits. The lack of a strong intellectual property regime in India helped him to reverse engineer popular drugs. Says Surana's son and Chairman and MD Dilip Surana: "My father's ability to pick up the chemistry of a drug was amazing. For him there was no holiday. He lived and breathed business and inculcated the same values in us. Even during my high school days, he made sure I learn the trade, starting from the lowest rung."

A few years later, Dilip's younger brother, Anand, joined the family business. The duo brought in fresh ideas and Micro Labs became one of the few companies in the mid-1980s to have separate strategic business units that focused on areas such as

Micro Labs has been investing to increase capacity and boost exports. It is also planning to set up manufacturing units in the UAE and Indonesia

cardiology, neurology, dermatology and nephrology.

From ₹30 crore in 1987, Micro Labs posted a turnover of ₹2,500 crore in 2014/15, with its global business contributing 40 per cent to its revenues. It posted a net profit of ₹350 crore and carries zero debt on its balance sheet. It has 16 manufacturing facilities across India and one plant in South Africa, employing 9,000 people. Micro Labs has been aggressively investing to increase capacity and boost exports, and is also planning to set up manufacturing units in the UAE and Indonesia.

Big Contacts, Bigger Footprint

Rooted to pharma and healthcare, Shetty also has business interests in IT and realty

June 2014 saw an Abu Dhabi-based Indian touch down in London to buy a majority stake in a foreign exchange company with operations in 27 countries. Market observers were surprised to see B.R. Shetty take over the Travelex Group at a valuation of £1 billion.

Shetty, a native of Udupi in Karnataka, was, however, a known face in the Gulf. His penchant for occasionally making splashy moves had grabbed eyeballs when he bought two entire floors of the Burj Khalifa in Dubai in 2012 for an estimated $25 million.

But, how did a clinical pharmacist become a billionaire? Industry observers give credit to Shetty's business acumen. He spotted prospects in the health care space in the Gulf region early and set up New Medical Centre (NMC) in 1975 to tap into the local and the burgeoning population from South Asia.

Shetty's partnership with Abdulla Hamid Al-Mazroei, a senior minister in the UAE government, paved the way for the exponential growth NMC has witnessed over the years. Today, he runs a chain of hospitals and clinics across the Gulf, apart from having interests in hospitality, pharmaceutical, drug manufacturing, education, jewellery, information technology and real estate.

NMC Health was listed on the London Stock Exchange in 2012. It posted $644 million in revenues with a net profit of $77.5 million in 2014/15. Its market cap is in excess of $1 billion.

The 73-year-old is also planning to open new facilities in Kerala, Punjab, Chhattisgarh and Rajasthan. ◆

RESEARCH INPUTS BY
JYOTINDRA DUBEY

Creating opportunities: B.R. Shetty

NMC HEALTH PLC

PROMOTER
B.R. Shetty

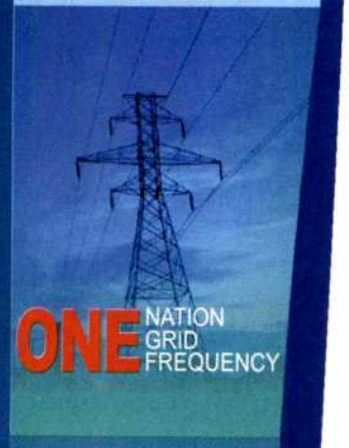
STARTED
1975

BUSINESS
Drug manufacturing, hospitals and clinics.

USP
Bought Travelex Group in 2014 at a valuation of £1 billion.

ESTIMATED WEALTH*
$1 billion

*Includes estimates from his unlisted companies
Source: BT Research



Statement of Audited Financial Results for the year ended 31st March, 2015

(₹ in L

Part - I		Standalone					Consolidated	
Sl. No.	PARTICULARS	Quarter ended on			Year ended on		Year ended on	
		31.03.2015 (Un-audited)	31.12.2014 (Un-audited)	31.03.2014 (Un-audited)	31.03.2015 (Audited)	31.03.2014 (Audited)	31.03.2015 (Audited)	31.03.2 (Audit
1.	**Income from Operations**							
	a) Transmission Income	442640	418171	369961	1645086	1425005	1692772	14692
	b) Consultancy Income - Services	15676	10185	14734	38060	33248	38520	334
	c) Consultancy Income - Sale of Products	-	-	2219	-	29407	-	294
	d) Telecom Income	7903	6888	6492	27489	27614	27471	276
	e) Other Operative Revenue	4103	118	5222	7088	7754	7088	77
	Total income from operations	**470322**	**435362**	**398628**	**1717723**	**1523028**	**1765851**	**15675**
2.	**Expenses**							
	a) Purchase of Stock in Trade	-	-	1681	-	21940	-	219
	b) Employee benefit expenses	28150	25384	23426	102365	94168	112441	1033
	c) Depreciation and amortisation expenses	141806	130069	107503	508541	399568	517333	4079
	d) Transmission, Administration and Other expenses	38799	33016	33206	135516	111286	140790	1158
	e) Prior Period Adjustments : Expenses / (Income)	(2472)	2950	2005	4712	2052	4719	42
	Total Expenses	**206283**	**191419**	**167821**	**751134**	**629014**	**775283**	**6533**
3.	**Profit from Operations before other income, finance costs and exceptional items (1-2)**	**264039**	**243943**	**230807**	**966589**	**894014**	**990568**	**9141**
4.	**Other Income**	**20634**	**13249**	**19736**	**60281**	**49113**	**57453**	**470**
5.	**Profit from ordinary activities before finance costs and exceptional items (3+4)**	**284673**	**257192**	**250543**	**1026870**	**943127**	**1048021**	**9612**
6.	**Finance costs**	103762	102467	81891	397932	316752	408123	3253
7.	**Profit from ordinary activities after finance costs but before exceptional items (5-6)**	**180911**	**154725**	**168652**	**628938**	**626375**	**639898**	**6359**
8.	Exceptional Items	-	-	-	-	-	-	
9.	**Profit from ordinary activities before Tax(7-8)**	**180911**	**154725**	**168652**	**628938**	**626375**	**639898**	**6359**
10.	**Tax Expenses**							
	a) Current Tax (Minimum Alternate Tax)	35705	31884	34363	128099	127413	131913	1326
	b) Deferred Tax	36893	17823	16705	82425	49220	83901	485
	Total (a+b)	72598	49707	51068	210524	176633	215814	1811
	Less: Deferred Tax Assets against Deferred Tax Liability	32935	17873	-	79503	-	80202	
	Total Tax Expenses	39663	31834	51068	131021	176633	135612	1811
11.	**Net Profit from ordinary activities after tax (9-10)**	**141248**	**122891**	**117584**	**497917**	**449742**	**504286**	**4547**
12.	**Extraordinary Items (net of tax expenses)**	-	-		-	-	**(339)**	
13.	**Net Profit for the period (11-12)**	**141248**	**122891**	**117584**	**497917**	**449742**	**504625**	**4547**
14.	**Share of profit / (loss) of associates**	-	-	-	-	-	-	
15.	**Minority interest**	-	-	-	-	-	-	
16.	**Net profit after taxes, minority interest and share of profit /(loss) of associates (13-14-15)**	**141248**	**122891**	**117584**	**497917**	**449742**	**504625**	**4547**
17.	Paid up Equity Share Capital (Face Value - ₹ 10/- per share)	523159	523159	523159	523159	523159	523159	5231
18.	Paid up Debt Capital				9384455	8046985		
19.	Reserves excluding Revaluation Reserve as per balance sheet				3293500	2922804	3320714	29466
20.	Bonds Redemption Reserve				587047	488661		
21.	**Earnings per share (before extraordinary items)(not annualised)**							
	(₹/Share of ₹10/- each calculated on Profit after Tax)							
	(a) Basic	2.70	2.35	2.24	9.52	9.36	9.64	9.
	(b) Diluted	2.70	2.35	2.24	9.52	9.36	9.64	9.
22.	**Earnings per share (after extraordinary items)(not annualised)**							
	(₹/Share of ₹10/- each calculated on Profit after Tax)							
	(a) Basic	2.70	2.35	2.24	9.52	9.36	9.65	9.
	(b) Diluted	2.70	2.35	2.24	9.52	9.36	9.65	9.
23.	Debt Equity Ratio				71:29	70:30		
24.	Debt Service Coverage Ratio (DSCR)				2.04	2.14		
25.	Interest Service Coverage Ratio (ISCR)				4.06	4.50		

Refer accompanying notes to the financial results

Part - II		Select Information						
Sl. No.	PARTICULARS	Standalone					Consolidated	
		Quarter ended on			Year ended on		Year ended on	
		31.03.2015 (Un-audited)	31.12.2014 (Un-audited)	31.03.2014 (Un-audited)	31.03.2015 (Audited)	31.03.2014 (Audited)	31.03.2015 (Audited)	31.03.2 (Audite
A	**PARTICULARS OF SHAREHOLDING**							
1.	Public Shareholding							
	- Number of shares	2202754450	2202754450	2202754450	2202754450	2202754450	2202754450	2202754
	- Percentage of shareholding	42.10 %	42.10 %	42.10 %	42.10 %	42.10 %	42.10 %	42.1
2.	Promoters and Promoter Group Shareholding							
	(a) Pledged/ Encumbered							
	Number of Shares	-	-	-	-	-		
	Percentage of share (as % of the total shareholding of promoter and promoter group)	-	-	-	-	-		
	Percentage of share (as % of the total share capital of the company)	-	-	-	-	-		
	(b) Non-encumbered							
	Number of Shares	3028835198	3028835198	3028835198	3028835198	3028835198	3028835198	3028835
	Percentage of share (as % of the total shareholding of promoter and promoter group)	100 %	100 %	100 %	100 %	100 %	100 %	10
	Percentage of share (as % of the total share capital of the company)	57.90 %	57.90 %	57.90 %	57.90 %	57.90 %	57.90 %	57.9

	Particulars	Quarter ended 31.03.2015
B	**INVESTOR COMPLAINTS**	
	Pending at the beginning of the quarter	1
	Received during the quarter	169
	Disposed of during the quarter	170
	Remaining unresolved at the end of the quarter	0

ement of Assets and Liabilities

(₹ in Lakhs)

Particulars	Standalone		Consolidated	
	Year ended 31.03.2015 (Audited)	Year ended 31.03.2014 (Audited)	Year ended 31.03.2015 (Audited)	Year ended 31.03.2014 (Audited)
EQUITY AND LIABILITIES				
Shareholders' funds				
(a) Share capital	523159	523159	523159	523159
(b) Reserves and surplus	3293500	2922804	3320714	2946635
Sub-total - Shareholders' funds	3816659	3445963	3843873	3469794
Deferred Revenue	476291	451746	481259	456705
Non-current liabilities				
(a) Long-term borrowings	8937584	7679022	9049247	7777213
(b) Deferred tax liabilities (Net)	247215	244296	249045	245245
(c) Other long term liabilities	109788	133730	112939	135848
(d) Long-term provisions	58023	52437	61050	55497
Sub-total - Non-current liabilities	9352610	8109485	9472281	8213803
Current liabilities				
(a) Short-term borrowings	120000	270000	120649	270000
(b) Trade payables	39297	32907	43019	34901
(c) Other current liabilities	1904036	1552004	1999736	1603716
(d) Short-term provisions	121195	96802	115611	99044
Sub-total - Current liabilities	**2184528**	**1951713**	**2279015**	**2007661**
AL - EQUITY AND LIABILITIES	**15830088**	**13958907**	**16076428**	**14147963**
ASSETS				
Non-current assets				
(a) Fixed assets (including Capital Work-in-Progress)	12956840	10500548	13166710	10664281
(b) Construction stores	1304196	1762530	1320524	1767793
(c) Non-current investments	74099	81433	1949	20627
(d) Deferred foreign currency fluctuation asset	284154	249057	284154	249057
(e) Long-term loans and advances	417789	458439	414713	472949
Sub-total Non-current assets	**15037078**	**13052007**	**15188050**	**13174707**
Current assets				
(a) Current investments	18543	18435	20010	21717
(b) Inventories	71775	71240	71884	71344
(c) Trade receivables	211865	157846	220696	161829
(d) Cash and Bank balances	206298	441752	298855	497437
(e) Short-term loans and advances	56642	44064	42452	42238
(f) Other current assets	227887	173563	234481	178691
Sub-total - Current assets	**793010**	**906900**	**888378**	**973256**
AL - ASSETS	**15830088**	**13958907**	**16076428**	**14147963**

ted Segment wise Revenue, Results and Capital Employed for the Year ended 31st March, 2015

(₹ in Lakhs)

Particulars	Standalone					Consolidated	
	Quarter ended on			Year ended on		Year ended on	
	31.03.2015 (Un-audited)	31.12.2014 (Un-audited)	31.03.2014 (Un-audited)	31.03.2015 (Audited)	31.03.2014 (Audited)	31.03.2015 (Audited)	31.03.2014 (Audited)
Segment Revenue (including Allocable Other Income)							
Transmission	455857	424005	380434	1674240	1452772	1722988	1498596
Consultancy	15435	11047	17164	38773	63274	39233	63507
Telecom	8839	7766	6797	30095	28821	30076	28821
otal	480131	442818	404395	1743108	1544867	1792297	1590924
Less: Inter Segment Revenue	909	783	290	2439	1105	2439	1105
otal Revenue including Other Income	**479222**	**442035**	**404105**	**1740669**	**1543762**	**1789858**	**1589819**
Segment Results							
rofit Before Interest and Tax							
Transmission	257943	241021	222592	957920	876890	983259	900416
Consultancy	11779	7507	12237	25282	28485	25515	28005
Telecom	3217	2088	1455	6333	9373	6314	9373
Total Profit Before Interest and Tax	**272939**	**250616**	**236284**	**989535**	**914748**	**1015088**	**937794**
Less :							
Unallocated interest and finance charges	103762	102467	81891	397932	316752	408123	326687
Other unallocated expenditure net of unallocated income	(11734)	(6576)	(14259)	(37335)	(28379)	(33446)	(24793)
Profit before Tax	**180911**	**154725**	**168652**	**628938**	**626375**	**640411**	**635900**
Capital Employed (Segment Assets - Segment Liabilitiies)							
Transmission	9213007	8468279	7442450	9213007	7442450	9327441	7551900
Consultancy	(74653)	(103723)	(65412)	(74653)	(65412)	(69807)	(62740)
Telecom	25073	27373	37725	25073	37725	25073	37725
Capital Employed in Segments	**9163427**	**8391929**	**7414763**	**9163427**	**7414763**	**9282707**	**7526885**
Unallocated Assets Less Liabilities	4157687	4781308	4348185	4157687	4348185	4185507	4364867
Total	**13321114**	**13173237**	**11762948**	**13321114**	**11762948**	**13468214**	**11891752**

e operations of the Company are mainly carried out within the country and therefore, geographical segments are not applicable.
gures reported for Consultancy Segment also include amount related to Sale of Products.
evious periods' / year figures have been regrouped / rearranged wherever necessary.

ubsidiaries and Joint Venture Companies considered in the Consolidated Financial Results for the year ended 31st March, 2015

e of the Company	Ownership (%)
idiary Companies	
ower System Operation Corporation Limited	100%
owergrid NM Transmission Limited *	100%
ergrid Vemagiri Transmission Limited	100%
owergrid Vizag Transmission Limited	100%
owergrid Unchahar Transmission Limited	100%
owergrid Kala Amb Transmission Limited	100%
ndhyachal Jabalpur Transmission Limited *	100%
Venture Companies	
corporated in India	
owerlinks Transmission Limited	49%
2 Torrent Power Grid Limited *	26%
3 Jaypee Powergrid Limited *	26%
4 Parbati Koldam Transmission Company Limited *	26%
5 Teestavalley Power Transmission Limited *	26%
6 North East Transmission Company Limited *	26%
7 National High Power Test Laboratory Private Limited	20%
8 Energy Efficiency Services Limited *	25%
9 Bihar Grid Company Limited *	50%
10 Kalinga Vidyut Prasaran Nigam Private Limited *	50%
11 Cross Border Power Transmission Company Limited	26%
Incorporated outside India	
12 Power Transmission Company Nepal Limited *	26%

* Un-Audited Financial Statements

Notes :

1. The audited accounts are subject to review by the Comptroller and Auditor General of India under section 143(6)&(7) of the Companies Act, 2013.
2. (a) In exercise of powers u/s 178 of the Electricity Act 2003, Central Electricity Regulatory Commission (CERC) has notified "CERC (Terms and Conditions of Tariff) Regulations 2014" vide order dated 21st February, 2014 for the determination of transmission tariff for the block period 2014-19.
   (b) Income on account of Transmission Charges for the year has been provisionally recognised based on "CERC (Terms and Conditions of Tariff) Regulations 2014" pending issuance of final tariff orders (wherever tariff petitions have been filed) and filing of tariff petitions in certain cases for block period 2014-19. However beneficiaries are being billed as follows:
   (i) In respect of the assets commissioned prior to 31.03.2014, in accordance with the tariff approved and applicable as on 31st March 2014 as provided in CERC (Terms and conditions of Tariff) Regulations 2014.
   (ii) In respect of assets commissioned after 31.03.2014 up to 90% of the tariff claimed wherever provisional orders have been issued by the CERC.
3. Effect of changes in accounting policies :
   (a) During the Year, material for construction of Substations (including HVDC) is being transferred to Capital Work in Progress (CWIP) during the progress of erection work as against earlier practice of transferring the same on the completion of erection work. The change of practice has resulted in increase in CWIP amount by ₹23443 lakhs with corresponding reduction in Construction Stores.
   (b) The Company has revised depreciation rates on certain fixed assets w.e.f. 01st April, 2014 as per useful life specified in schedule II of the Companies Act, 2013 as reassessed by the company. Accordingly, the company has accounted for additional depreciation charge of ₹2231 Lakhs during the year ended 31st March, 2015 and ₹ 5 Lakhs (net of deferred tax) in reserves in terms of the transitional provisions of said schedule II. Thus, by charging depreciation at the revised depreciation rates, the depreciation charge for the year ended 31st March, 2015 is higher by ₹ 2231 Lakhs and profit after tax for the year is lower by ₹ 2231 Lakhs.
4. The tariff norms for the block period 2014-2019 notified by the CERC provide for grossing up of the return on equity based on effective tax rate for the financial year based on the actual tax paid during the year on the transmission income. Accordingly, deferred tax provided during the year ended 31st March, 2015 on the transmission income is accounted as 'Deferred Tax Assets against Deferred Tax Liability'. Deferred Tax Assets against Deferred Tax Liability for the year will be reversed in future years when the related deferred tax liability forms a part of current tax.
5. Out of the proceeds of Follow on Public Offer (FPO) made in Financial Year 2013-14, as sum of ₹ 297500 lakhs (previous year ₹ 234631 lakhs which includes ₹ 1415 lakhs utilised for share issue expenses) has been utilised during the year for part financing of capital expenditure on the projects and general corporate purpose as per objects of the issue resulting in complete utilisation of funds amounting to ₹ 532131 lakhs raised through FPO.
6. During the year, the Company has paid an interim dividend of ₹ 0.69 per share (face value ₹10/- each) for the year 2014-15. The Board of Directors has recommended final dividend of ₹ 1.31 per share (face value ₹ 10/- each). The total dividend (including interim dividend) for the financial year 2014-15 is ₹ 2.00 per share (face value ₹10/- each).
7. The Auditors have qualified their report on the Annual Accounts (standalone as well as consolidated) of the Company for the year ended 31.03.2015 as detailed below:
   i) The Company has not made any provision in respect of revenue of ₹14491 lakhs recognized for the period 01.07.2010 to 31.08.2011 in respect of Barh-Balia Transmission line, wherein Company appeal is pending with Hon'ble Supreme Court against the order of Appellate Tribunal for Electricity (ATE) directing CERC to re-determine the Date of Commercial Operation (DOCO). Pending decision of Hon'ble Supreme Court and pending re-determination of DOCO by CERC and in view of uncertainty involved, provision should have been made.
   ii) The Company has not made any provision in respect of outstanding dues of ₹ 1564 lakhs from one of the medium term open access customers(MTOA), which is under liquidation, pending decision on the appeal filed with CERC.

   Non provision of the above has resulted in increase in Profit after Tax by ₹12969 lakhs.

   Regarding (i), Management is of the view that, the Company is entitled for the transmission charges w.e.f. 01.07.2010, as approved by CERC on 29.04.2011, since the line was ready for regular service on completion of Company's scope of work. Thus, the declaration of DOCO on 01.07.2010 is correct as per CERC Tariff Regulations, 2009. Pending decision of the Hon'ble Supreme court and pending re-determination of DOCO by CERC, no provision is required in respect of Revenue of ₹14491 lakhs recognized in earlier years for the period from 01.07.2010 to 31.08.2011.

   Regarding (ii), Management is of the view that the MTOA is a transmission service provided on the margins available in the existing transmission network and the Company is not impacted (increase/decrease) due to grant of MTOA or cancellation thereof as per CERC regulations. Considering that the entire transmission charges are recoverable from long term customers, who have signed agreement for establishment of such transmission systems as per CERC sharing regulations, no provision is required towards the above dues.
8. Formula used for computation of coverage ratios DSCR = Earning before Interest, Depreciation and Tax/(Interest & Finance Charges net of amount transferred to expenditure during construction + Principal Repayment) and ISCR = Earning before Interest, Depreciation and Tax/(Interest & Finance Charges net of amount transferred to expenditure during construction).
9. Figures for the fourth quarter are the balancing figures between audited figures in respect of the full financial year and the published year to date figures upto the third quarter of the financial year.
10. The above results have been reviewed by the Audit Committee and have been approved by the Board of Directors at their respective meetings held on 30.05.2015.
11. Previous periods' / year figures have been regrouped / rearranged wherever necessary.

For and on behalf of **POWER GRID CORPORATION OF INDIA LTD.**

sd/-
(R. N. Nayak)
Chairman & Managing Director

Place : New Delhi.
Date : 30th May, 2015.

IMPORTANT NOTICE: Members are requested to register/update their E-mail ID with Company/ Depository participants/ Company's Registrar & Transfer Agent (KARVY) which will be used for sending official documents through e-mail in future.

पावरग्रिड

POWER GRID CORPORATION OF INDIA LTD.

(A Government of India Enterprise)
CIN: L40101DL1989GOI038121
Registered Office: B-9, Qutab Institutional Area, Katwaria Sarai, New Delhi – 110 016. Phone No.: 011-26560112, Fax: 011-26601081
Corporate Office: 'Saudamini', Plot No.: 2, Sector-29, Gurgaon – 122 001. Phone No.: 0124-2571700-719, Fax: 0124-2571762,
Website : www.powergridindia.com

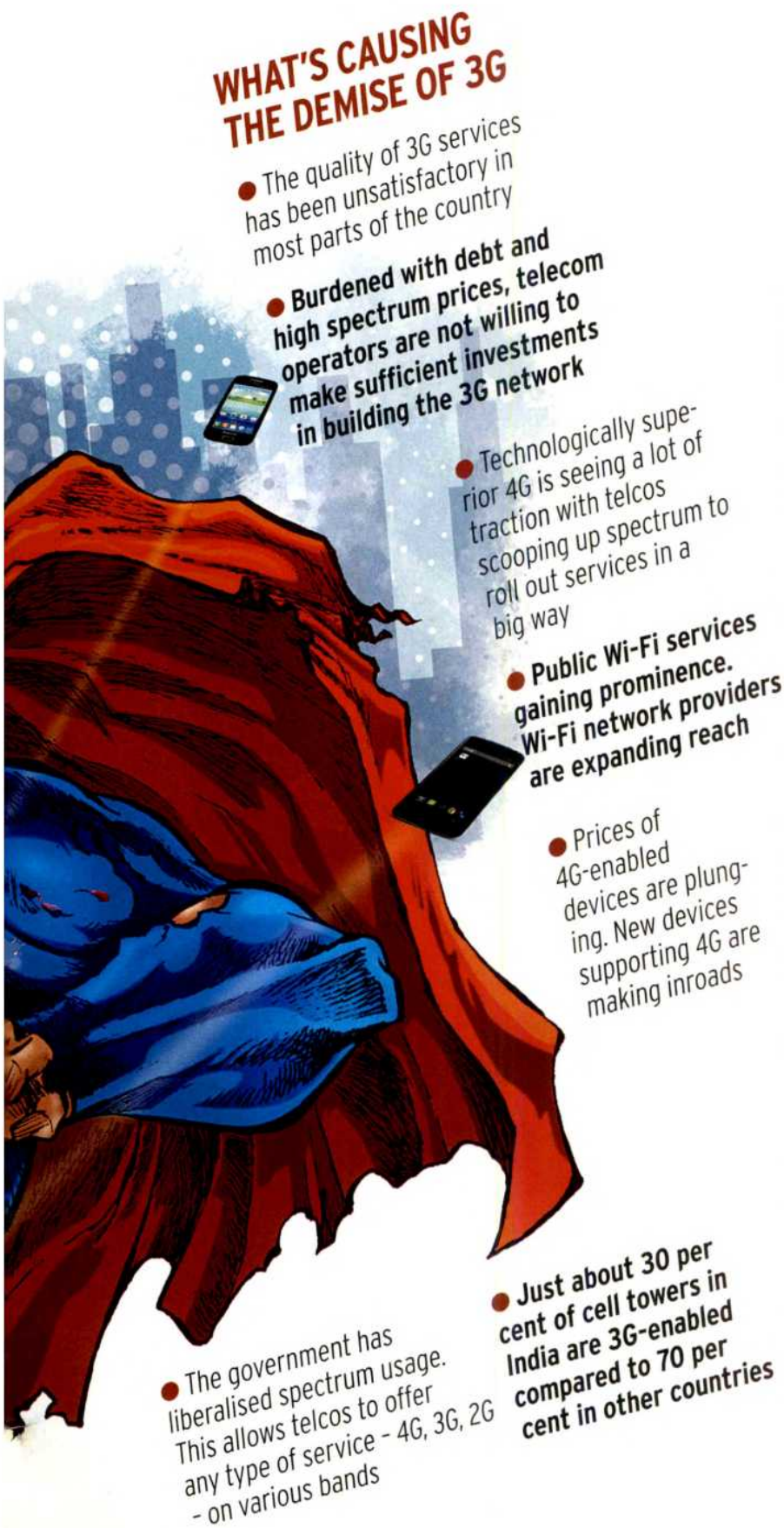
A 'NAVRATNA' COMPANY

DISTRESS CALL

A HOST OF FACTORS IS CONTRIBUTING TO THE DEATH OF 3G IN INDIA.

By MANU KAUSHIK

AJAY THAKURI



In 2010, the telecom sector began undergoing a major shift. Telecom operators, which until then depended mainly on voice services for revenue, started seeing data usage on mobile phones growing. That year, the government sold spectrum for third-generation, or 3G, services in an auction that saw telecom operators bidding in a frenzy. All the 71 spectrum blocks that were up for auction across the 22 telecom service areas in the country were sold for a whopping ₹67,719 crore, as operators bet on high-speed 3G data services hoping that it would be the next big thing after mobile telephony. However, things have not panned out as planned and 3G has turned out to be a huge disappointment.

To begin with, the quality of 3G services, including both data speed and connectivity, has been awful since its launch. Sample this: Bharti Airtel offers 3G speed of up to 21 megabits per second (mbps) for mobile users. That means a 10-minute YouTube video should take less than a minute to download. It, however, remains a pipe dream. For people accessing the Internet over mobile phones or otherwise, 2G-based Internet services – GPRS and EDGE – are still used by default. If a user is lucky enough to be in the range of a tower beaming 3G airwaves, the speed goes up marginally.

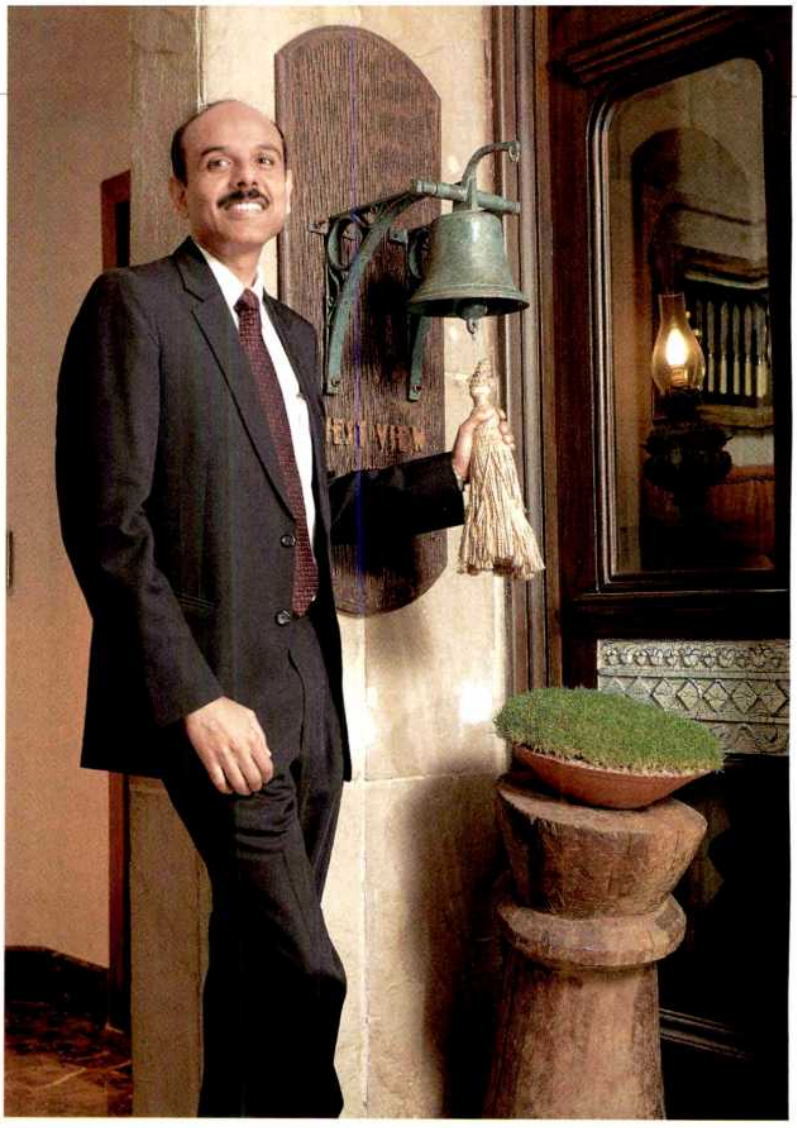
So, what is leading to the death of 3G in India? First, telecom companies are not willing to make enough investments to build 3G networks. Then, the technologically-superior 4G technology and Wi-Fi services are gaining prominence. Also, the government has liberalised spectrum usage and allowed telecom operators to offer any type of service – 4G, 3G, 2G – on any band. Finally, the emergence of new, faster versions of other wireless technologies such as Bluetooth is beginning to make 3G less and less relevant.

Where's the Money?

Telecom operators have been wary about investing in 3G networks. This can be attributed to the high spectrum prices. For instance, the average auction price per MHz (for 800 MHz band) stood at $89.20 million in 2013. The comparable figures for Spain, France and Portugal stood at $28.80 million, $57.20 million and $5.87 million, respectively, in 2011.

Also, as experts point out, operators are worried that investment in 3G would not make sense because newer technologies – 4G and Wi-Fi – will be given preference by users.

Consequently, telcos have found it extremely difficult to push ahead with 3G services on a large scale. The launches are limited to a few cities, and even within cities only certain pockets are covered. "Investments in 3G haven't happened the way they should have because the industry is starved of resources. The problem is that telcos [in India] pay extremely high



SHEKHAR GHOSH

"TODAY, A CUSTOMER IS LOOKING AT SEAMLESS MOBILE INTERNET EXPERIENCE, ESPECIALLY FOR VIDEOS, AND IS NOT BOTHERED ABOUT THE TECHNOLOGY..."

P. BALAJI/ Director (Regulatory and External Affairs)/ Vodafone India

prices for spectrum. It is 70 per cent over average world prices for the same type of spectrum," says Rajan Mathews, Director General of the industry group Cellular Operators Association of India (COAI).

Indeed, in most parts of the world, it takes around three years to develop a full-fledged 3G network. Despite over four years of its existence in India, 3G is still limited in reach and service standards. "We are far too delayed," says an equipment provider. The lack of investment in 3G networks is evident. Consider this: out of a total 5.5 lakh cell towers in India, just 1.65 lakh are 3G-enabled. Globally, most countries have over 70 per cent 3G-compatible towers. "We have pockets of 3G coverage. So, when people move out of that pocket, they fall into a 2G network," explains Mathews, adding that the poor quality of 3G services is due to lack of wall-to-wall coverage in both urban and rural areas.

Clearly, besides the issue of non-availability, there are concerns related to 3G speed within the service areas. The operators talk about 3G speeds of 3.6 mbps to 21 mbps on their network, but the actual speed is much lower. Last year, telecom regulator TRAI proposed to set a minimum of one mbps download speed for 3G networks.

In fact, the difference between the speeds of 2G and 3G is hardly visible. In an April 2015 survey by telecom equipment provider Ericsson, The Changing Mobile Broadband Landscape, some 48 per cent respondents in a survey were unable to distinguish between 2G and 3G speeds. As a result, they saw no advantage in switching to a high speed [3G] service. The comprehensive survey was conducted in 33 cities across the country.

Telecom operators say that their

inability to invest in 3G networks can also be attributed to high taxes. "For every rupee I earn, 30 paisa goes back to the government in some form of taxes and levies, excluding income tax," says Mathews. It includes eight per cent licence fee, five to six per cent spectrum usage charge, various taxes on equipment, and other charges imposed at both state and central government levels.

In comparison, taxes in China and Pakistan amount to about two per cent of revenues cumulatively. "The amount of money left in the pockets of telcos is diminished. At the same time, they [operators] pay the same price for equipment as global telecom operators because most of it is imported," says Mathews adding that operators cannot expand their coverage without putting up more cell towers. "Laying fibre, which is essential for carrying high-speed data, is not easy because the cost levied by the local municipalities is extremely high," he says.

Meanwhile, data consumption is growing rapidly in India, primarily led by 3G services, but its contribution to overall revenue of operators is still minuscule compared with voice. The average data usage per GSM subscriber has grown from 50.70 megabytes in December 2013 to 79.73 megabytes in December 2014, a jump of 57 per cent. But data usage contributed only 17.1 per cent to the average revenues of telcos in December 2014.

The Device Conundrum

The telecom operators argue that it is a chicken-and-egg situation for them. As there are not enough 3G-enabled smartphone users in the country, there's no point in investing heavily in the technology. For 3G to become commercially viable, it requires a large number of consumers who can afford the devices supporting the technology. According to the Ericsson survey, the penetration of 3G smartphones in urban areas is just 20 per cent. Penetration in rural India is much lesser.

Today, 3G users stack up to just over seven per cent of the total subscriber base of telcos. While there were around 130 million 3G capable-devices in use in India in 2014, just about 70 million were active, according to a report published by Nokia Networks. "Price of devices is a sensitive issue. India is very price conscious market. In the case of 2G, the real growth came when prices of handsets went down to below ₹2,000," says a senior Idea Cellular executive. Even though the lowest 3G smartphone is now available at ₹2,300, a good-quality device costs above ₹3,000.

75%

OF MOBILE DEVICES SOLD IN INDIA ARE PRICED BELOW ₹3,000

LOWEST PRICE OF A 3G SMARTPHONE IS AROUND ₹2,300 WHILE THE CHEAPEST 4G DEVICE COSTS ₹5,399

Experts believe that growth of the 2G market is difficult to replicate even if the prices of 3G devices fall further. This is largely because the prices of 4G-enabled devices are also dropping simultaneously and today are priced as low as ₹5,399 (Nokia Lumia 638). "In three years from now, we believe there will be no difference between 3G and 4G devices," says Gurdeep Singh, CEO (Consumer Business) at Reliance Communications, which scooped up 5 MHz contiguous spectrum nationwide in the 800/850 MHz band in the recently-concluded telecom auctions.

However, smartphones alone will not change the game for 3G services. The whole device ecosystem around Wi-Fi – and wireless broadband – is developing fast. Routers, dongles, femtocells and Mi-Fis – all supporting 4G and Wi-Fi technologies – will provide superior voice and data services. In fact, both Airtel and Aircel have introduced 4G Wi-Fi routers, a portable device that gives wireless access for broadband-like speed.

Skipping 3G

"A natural linear technology progression (subscribers graduating from 2G to 3G and then to 4G) might not take place in India," observes an October 2014 report by financial services firm JP Morgan. India will be ready for mainstream adoption of 4G in two to three years time, and that there could be a generation of 2G subscribers leapfrogging directly to 4G, according to the report. "Indian subscribers' latent desire for high-quality, high-speed data will likely force incumbent operators to roll out their 4G services earlier than planned – and without adequately monetising their 3G investments," says the report.

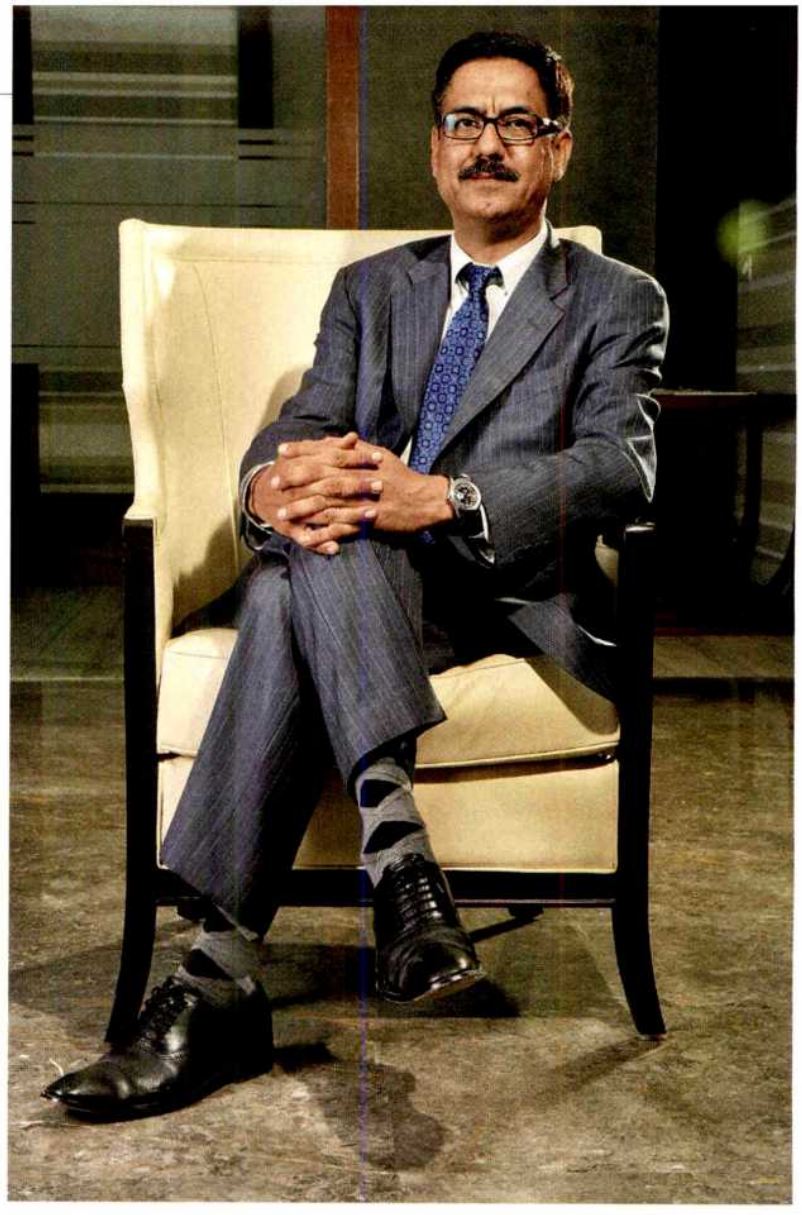
The international experience shows that 4G can have a far-reaching impact on 3G. In South Korea, for instance, the net 3G subscriber addition turned negative right after the launch of 4G. Similar trends were witnessed in China and Japan.

Already, the amount of money being pumped into building 4G networks in India is immense. Take Reliance Industries, for instance. It has invested close to $12 billion (over ₹77,000 crore), more than the amount spent by all telecom provid-

ers put together to acquire 3G spectrum in 2010, in Reliance Jio, which plans to roll out 4G network through its pan-India spectrum holding.

In addition, the emergence of Wi-Fi hotspots is also expected to deal a body blow to 3G. It's expected that users will increasingly access internet through public Wi-Fi zones. Indeed, there's a lot of action in the public Wi-Fi space. The Delhi-based Wi-Fi service provider Ozone Networks has over 1,500 public Wi-Fi hotspots across 26 cities, including Tier-II and Tier-III markets. Its aim is to deploy one million hotspots by 2020.

Ozone has tie-ups with GVK (for Mumbai airport), Oberoi Hotels and Resorts, several fast food chains, including McDonald's, and various commercial market associations to provide public Wi-Fi systems. Congestion in networks and low penetration of 3G will force telcos to use networks of Wi-Fi operators, asserts Sanjeev Sarin, founder of Ozone Networks. "Instead of depending on their own network entirely, we believe that telecom companies will use our [Wi-Fi] networks to give their customers seamless connectivity to high-speed data," he says.



"IN THREE YEARS FROM NOW, WE BELIEVE THERE WILL BE NO DIFFERENCE BETWEEN 3G AND 4G DEVICES"

GURDEEP SINGH/ CEO (Consumer Business)/ Reliance Communications

According to some estimates, 80 per cent of the data usage takes place at fixed locations. The aim of Wi-Fi service providers is to target these spots, which includes offices, homes, hotels and restaurants, markets and transit zones such as airports and railway stations. "The public Wi-Fi hotspot market is set to expand considerably. The Wi-Fi hotspots will be what the PCO [public call office] market used to be before the mobile revolution," says Sarin. Bharti Airtel and Vodafone India, for instance, formed a joint venture last year, Firefly Networks, that plans to build Wi-Fi networks across the country. Several other operators have also taken the plunge and will roll out public hot spots. "Today, a customer is looking at seamless mobile internet experience, especially for videos, and is not bothered about the technology – 2G, 3G, 4G or Wi-Fi," says P. Balaji, Director (Regulatory and External Affairs) at Vodafone India.

Meanwhile, a move by the government in 2012 to liberalise spectrum usage is now seen as another blow for 3G. The two major broadband access technologies – 3G and 4G – can be deployed on any of the seven possible bands. At the moment, different bands are used for different technologies. For instance, 900 MHz and 2,100 MHz are used for 3G while 800 MHz, 1800 MHz and 2,300 MHz are used for 4G. It is because the Indian telecom market is modelled on China, the world's largest handset market. Since China has deployed 3G on 2100 MHz and 4G on 1800 MHz, India does the same.

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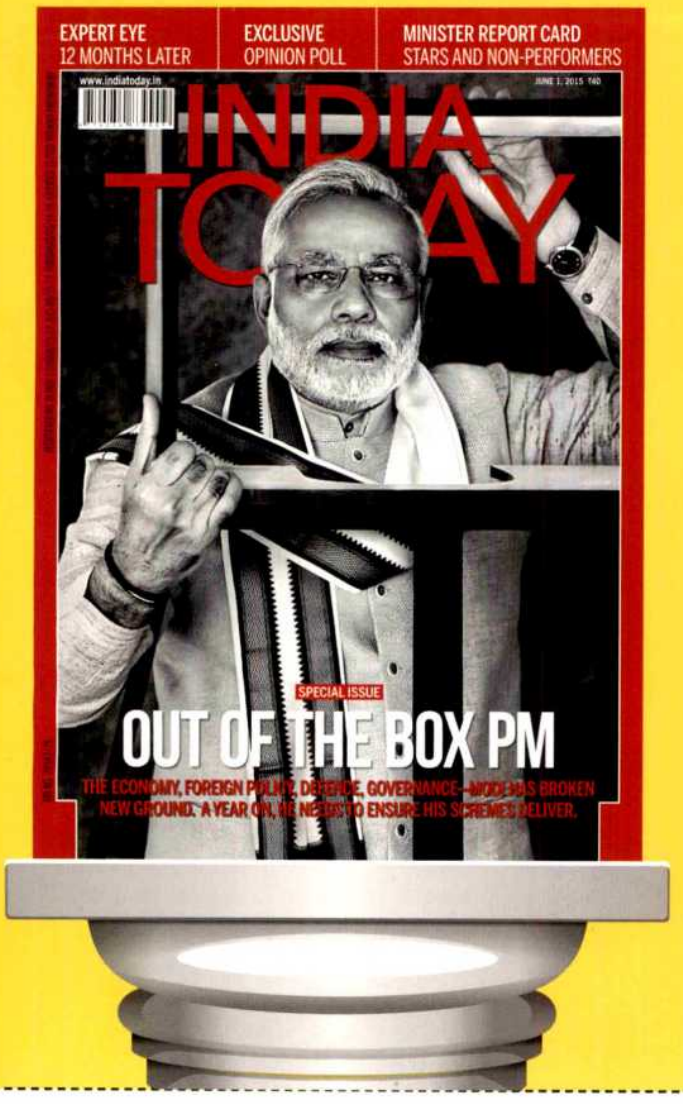

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THE EMERGENCE OF BLUETOOTH

The next 10 years will see the emergence of various wireless technologies. For instance, Bluetooth is narrowing its gap with Wi-Fi. The latest version of the technology – Bluetooth 4.0 – enables data transfers at the speed of 24 Mbps. Even though the latest Wi-Fi technology, Wi-Fi Direct, promises data transfers at 250 Mbps, its earlier versions could support speeds of only 11 Mbps and 54 Mbps.

The reach of Bluetooth-based wireless connections is increasing as well. Bluetooth 4.0 can send and receive data in a range of about 60 metres, which is sufficient in an office or residential set-up because it can connect multiple devices to one master device. In addition, Bluetooth 4.0 is also power-efficient – it consumes a fraction of the power consumed by older Bluetooth technologies. But the low-energy feature sometimes also makes it incompatible with the existing Bluetooth devices.

So, going forward, 4G is expected to become band-agnostic. It is expected that all telecom equipment will support 4G. In such a situation, telcos will give preference to 4G over 3G because consumers tend to gravitate towards operators that offer the latest technology, according to Dunigan O'Keeffe, senior partner at consultancy firm Bain & Co. "Consumers prefer superior technology even if they do not have supporting devices. As more consumers shift operators, other telcos will be forced to tune their networks in favour of 4G," he says.

While Airtel and Reliance Jio have been acquiring 4G spectrum over the past four years, players like Vodafone, Reliance Communications and Idea Cellular have strengthened their 4G arsenal of late. Take Vodafone, for instance. In the last two rounds of auctions, it has acquired spectrum in 1,800 MHz across 11 circles. Its total spectrum in the 1,800 MHz band is significantly higher than the spectrum it holds in other bands – 900 MHz and 2,100 MHz. Globally, 1,800 MHz is a prime band for deploying 4G.

The Countdown

The large-scale shift from 3G to 4G is yet to happen but the telcos are already preparing for the future. For example, Airtel has kept its 4G tariffs almost identical to the rates for 3G. For the one gigabyte prepaid offer, it is charging ₹249 for the 3G plan for 30 days and ₹255 for the 4G plan for 28 days. A recent report by global financial services firm Credit Suisse says that the move by Bharti Airtel, the market leader in the Indian telecom market, to offer 4G services at 3G tariffs (or below) is a significant event. "We believe this is a good reason to be worried about the fate of 3G investments and profitability in India," says the report.

WHAT'S ON OFFER

Different technologies and their key features

2G

YEAR OF LAUNCH: **1995**
SPEED: **21-97 kbps**
CAPABILITIES: **Basic web browsing, email access, MMS**

3G

YEAR OF LAUNCH: **2010**
SPEED: **399 Kbps-2.5 Mbps**
CAPABILITIES: **Supports video calling, video streaming, web browsing, VoIP calls**

4G

YEAR OF LAUNCH: **2012**
SPEED: **12-40 Mbps**
CAPABILITIES: **Supports HD video streaming, high-quality online gaming**

But access to faster internet is just one reason for consumers to switch from 3G to 4G. A combination of factors, including 3G-comparable data tariffs and quality of services, are equally important for a large scale migration to 4G. "It's more important to get the price-value equation right," says Jaideep Ghosh, Partner (Management Consulting) at audit and advisory firm KPMG India.

Some experts think that phasing out of 3G is unlikely for the time being. O'Keeffe of Bain & Co says that shortage of spectrum will result in carriers taking a hybrid approach – it would intrinsically mean offering 4G in some pockets and 3G in others. The average spectrum available per operator in India is just 18 MHz, according to the Global Mobile Operators' Association. It is much lower than the global average of 50 MHz and the average in Asia (49 MHz), Europe (65 MHz) and Americas (39 MHz). "For instance, in Maharashtra, an operator will give 4G service in Pune where the data usage is high among commercial users, students and individuals but for other parts of Maharashtra, the operator may still fall back on 3G," adds O'Keeffe.

All said and done then, 3G may not have an extended shelf life. Indeed, its death appears certain, but how long it will survive is anyone's guess. ◆

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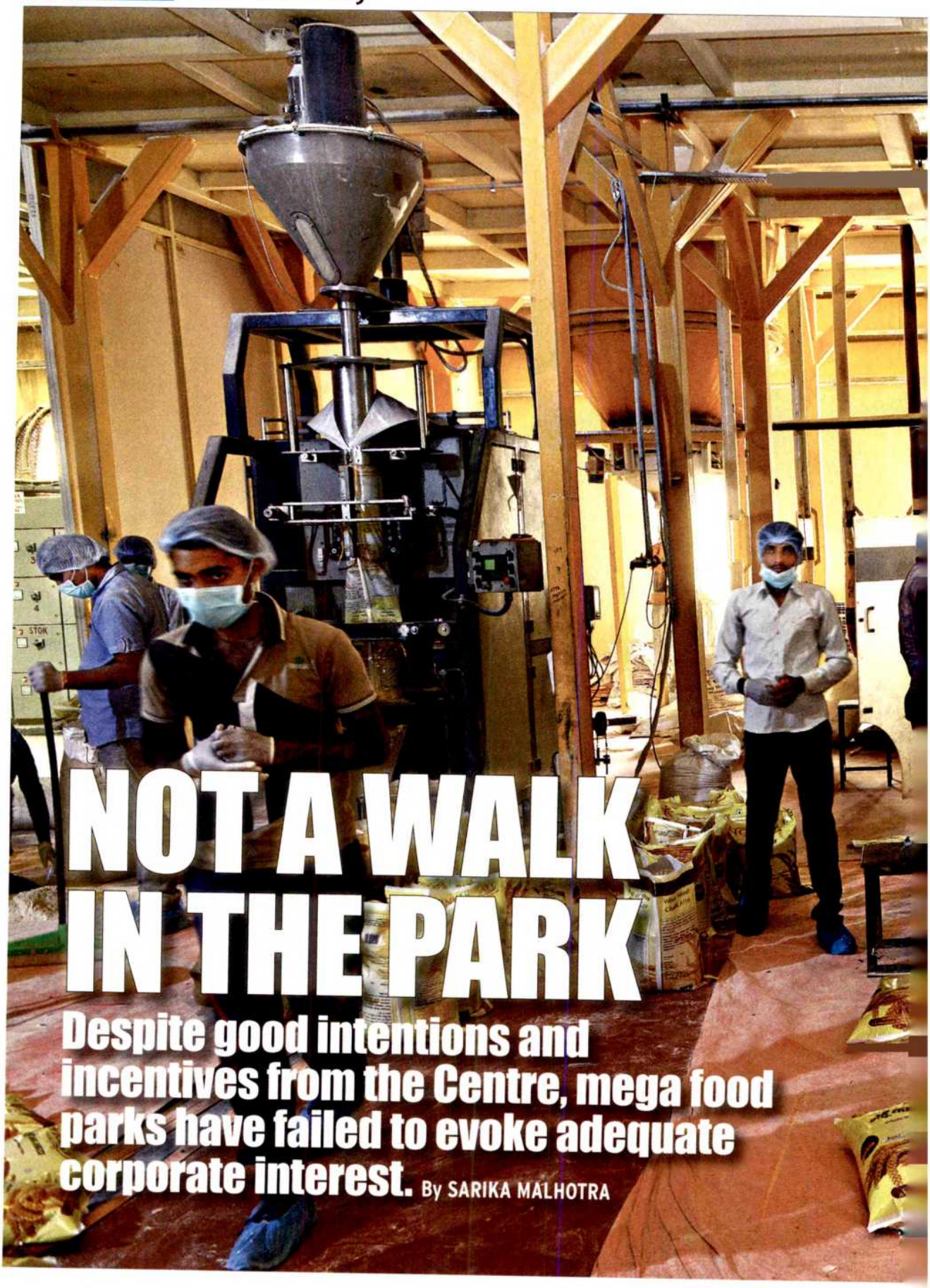

NOT A WALK IN THE PARK

Despite good intentions and incentives from the Centre, mega food parks have failed to evoke adequate corporate interest. By SARIKA MALHOTRA

SHEKHAR GHOSH

Rajesh Mehta has seen his business grow fourfold in the past two years since he started operating the 3,000-sq-ft snacks manufacturing unit at Patanjali Food and Herbal Park in Haridwar. This, in spite of the fact that he is paying five times the rental, from ₹5,000 for a 800-sq-ft unit, to a whopping ₹24,000 for the present facility. "The food park has been great for my business and it certainly gives us an edge. Earlier, we could only produce 400 kg of moong dal mixture a day. Now, we produce two tonnes per day. There is uninterrupted water and electricity supply, storage facilities and 24x7 security. All this has made a difference," says Mehta, the owner of Raghuraj Udyog, one of the seven external food processing units at the food park run by Patanjali.

Mehta has been adding new products to his snacks portfolio to expand his business. "Now I get the feeling of being a big player and not a small one anymore." Out of the two tonnes of snacks Mehta produces, one tonne is procured by Patanjali Ayurved and marketed under its brand. He sells the rest in the open market.

Mehta is one of the very few who have benefited from a grand central government scheme to promote small and medium and enterprises (SMEs) in the food processing and farm products sectors, by providing them with state-of-the-art infrastructure along the value chain – from the farm to the market. The Mega Food Parks Scheme (MFPS) launched by the Ministry of Food Processing Industries was developed under the 11th Five Year Plan and was implemented in 2008 by the then UPA government. Since its inception, 42 mega parks were given in-principle approvals. However, only five projects have started operations, including the North East Mega Food Park in Assam, India Food Park in Tumkur, Karnataka, International Mega Food Park in Fazilka, Punjab, Srini Food Park in Chittoor, Andhra Pradesh, and Patanjali Food and Herbal Park in Uttarakhand.

However, except for Patanjali and Srini food parks, which started operations in 2010 and 2012 and have generated revenues of ₹39 crore and ₹12.16 crore in 2014/15, respectively, things have barely taken off for the other MFPs. Interestingly, the Food Park in Haridwar was conceived even before the government had announced the mega scheme. Says Acharya Balkrishna, promoter of Patanjali Food Park: "We were build-

Patanjali Food and Herbal Park, Haridwar, Uttarakhand started operations in 2010

42

Mega food parks are being set up under public-private partnerships at an investment of ₹9,800 crore. The parks will have around 1,200 developed plots with basic infrastructure for food processing that entrepreneurs can take on lease to set up processing and ancillary units

OUT OF THE 42 FOOD PARKS, ONLY FIVE ARE OPERATIONAL

The India Food Park
Tumkur, Karnataka, inaugurated in September 2014. Got an extension of six months to start operations

International Mega Food Park
Fazilka, Punjab, started operations in December 2014

Srini Food Park
Chittoor, Andhra Pradesh, started operations in July 2012

Patanjali Food and Herbal Park
Haridwar, Uttarakhand, inaugurated and started operations in 2010

North East Mega Food Park
Guwahati, Assam, inaugurated on May 28, 2015

ing our own food park, independent of the government scheme. The land was acquired in 2007 and construction had started. It was during our discussions with ministry officials that the idea of developing it along the lines of MFPS emerged. We applied for it when the scheme was announced by the government. Subsequently, we started developing it as per government guidelines."

"Practically no work has started for 50 per cent of the projects. I had one-on-one discussions with 40 mega park owners and officers, and there seems to be certain inherent flaws which had not been looked into," says Union Minister of Food Processing Harsimrat Kaur Badal. In fact, even MFPs that are operational have not yet received the final instalment of ₹5 crore. So, technically, none of the projects have so far been completed.

Under MFPS, the government had announced a maximum grant of ₹50 crore (excluding land cost) to food park developers to help them set up a cluster-based facility that would include collection centres, primary processing centres and basic infrastructure such as cold chains, packaging, quality control labs, bottling units and pulping lines. The money would be sanctioned in four instalments. "It seemed that most developers were interested in the ₹50 crore grant and in getting the change in land use from agricultural to industrial and wait for land prices to appreciate. They never seemed to have the intention to put up an MFP," says Badal. The ministry identified 17 such developers and cancelled their approvals. "We are now allotting projects to people who seem to have the intention to build these parks," she adds.

The government's plan was to have 30-35 food processing units in each park with a collective investment of ₹250 crore, which would eventually lead to an annual turnover of ₹450 crore to ₹500 crore and provide direct and indirect employment to around 30,000 people. The revenue model was also simple: The external units would pay a rental to the MFP in addition to the charges for using the common infrastructure at

DEEPAK G. PAWAR

Praveen Dwivedi, CEO, India Food Park, Tumkur, Karnataka

"If the intent of the promoter is right and land is acquired within the timelines, then the project can easily take off"

Raveendra Nalluri, ED, Srini Food Park, Chittoor, Andhra Pradesh

"It was a constant struggle to convince banks (to fund) food parks as it was a new business model; they were not flexible and charged high interest rates"

the central processing centres. "There have been delays, but my goal is to create the infrastructure within the given time frame. The food processing sector can bring in a lot of investment and once we create the infrastructure, it will be a huge step in the direction of Make in India," says Badal.

Stumbling Blocks

Despite its huge potential, MFPS has failed to gain momentum due to several reasons. One, promoters have faced difficulties in selling the new concept to banks and, as a result, have failed to secure loans to build the parks. Two, acquiring the 50 acres of land, which is mandatory under MFPS, has been another challenge that most developers have failed to address. Three, convincing small enterprises to set up shop at these facilities has not been easy. And four, the overall economic slowdown, globally, and in India, did not help either.

According to Raveendra Nalluri, Executive Director, Srini Food Park, land was never a problem because they bought it from Andhra Pradesh Industrial Infrastructure Corporation (APIIC), a state government agency, but funding the project was a big ask. "It was a constant struggle to convince banks about food parks, because it was a new business model. They were not flexible and charged high interest rates that are usually associated with infrastructure projects. We started with 12.5 per cent; it went up to 16 per cent and, currently, we are paying 14 per cent. Usually, food processing units are offered loans at 9 per cent," he says.

Srini is spread across 142 acres. But only eight small enterprises have set up shop in the park so far, occupying just 22 acres. Clearly, attracting entrepreneurs and companies has not been easy. Says Nalluri: "They had apprehensions about relocating in food parks. Some felt that a lease agreement would impact their freedom of operations. Some wanted the developed land cheap and did not consider the cost

HOW MFPS EVOLVED OVER THE YEARS

The Mega Food Parks Scheme (MFPS) was expected to help achieve 'Vision 2015' of the Ministry of Food Processing to raise the processing of perishables in the country from six to 20 per cent, value addition from 20 to 35 per cent, and the country's share in global food trade from 1.5 per cent to 3 per cent by 2015.

It was envisaged that on an average, each project would have around 30-35 food processing units with a collective investment of ₹250 crore that would eventually lead to an annual turnover of ₹450-500 crore and provide direct and indirect employment to 30,000 people.

Changes made to MFPS:
The ministry revised its guidelines three times (in 2011, 2012 and 2014) since first issuing the norms in 2009.

While assessing the project:
In 2012 viability of cluster (availability of raw materials, etc.) was evaluated on 25 points. From 2014 it is being evaluated on 15 points.

In 2012 possession of appropriate land was evaluated on 20 points. From 2014 it is being evaluated on 25 points.

From 2014 investment by anchor investors is evaluated on 10 points. It was missing in earlier schemes.

From 2014 investment made in Primary Processing Centres is evaluated on 10 points. It was missing in earlier schemes.

SHEKHAR GHOSH

Sukhinder Singh, promoter, International Mega Food Park, Fazilka, Punjab

"How can any small or medium entrepreneur commit that he will set up a facility in a food park when the food park is still under construction?"

of infrastructure. Also, they did not have any specific incentive for relocating in MFPs."

Nalluri says that MNCs, who were interested in starting operations in the food park, wanted very large tracts of land and Srini lost out to Sri City SEZ. According to sources, Pepsico was one such company that was looking for a 50-acre plot in the MFP, but finally settled for the SEZ. Srini had started leasing at ₹17 lakh per acre for a 99-year lease in 2010. Cur-rently, the lease amount has gone up from ₹35 lakh to ₹50 lakh.

Patanjali also experienced a similar problem with only seven of the 22 units operating in the Haridwar food park being external establishments. The MFP is spread over 83 acres and employs 7,000 people directly and indirectly. However, most of the seven units supply products and services to Patanjali, be it the packaging unit of corrugation box, PET packaging unit for jars and bottles, or the breakfast food unit.

TEETHING TROUBLES

- Lack of promoter interest
- Availability of at least 50 acres of land to set up a park
- Change in land use from agriculture to industrial
- New concept, so smaller units are reluctant to move base
- Banks are charging high interest rates
- No incentives for small food processors to set up units in food parks
- Statutory approvals from state governments
- Marketability of products made by small players

Experts says the government must increase the ₹50 lakh grant to ₹2 crore for small enterprises to encourage entrepreneurs to set up food processing units in MFPs. With manufacturing at a low, such incentives will go a long way to boost the food processing industry and populate these parks faster.

The Divide

Alarmed by the slow pace of external units moving to MFPs, the ministry in its revised guidelines of 2014 has made it mandatory for food parks to submit documentary proof of allotment of at least 25 per cent of the area for the release of the third instalment of 20 per cent grant. "This was done because once promoters had put up the core infrastructure, some of them did not seem interested in sub leasing to other units and, instead, use it as a real estate proposition," says Badal. However, experts feel that linking the grant to leases will be an impediment for smooth completion of projects. Also, some observers feel that by bringing in such clauses the government is trying to insulate and completely derisk itself.

Says Sukhinder Singh, promoter of International Mega Food Park in Punjab: "How can any small or medium entrepreneur commit that he will set up a facility in a food park when it is still under construction? Only when it is ready can the entrepreneur weigh the pros and cons, check the park and facilities it offers, and only then decide to move in. Such models will only force the promoters to become real estate agents." Singh says that he is in talks with six food processors for lease agreements and gets 2-3 enquiries every month. "We are constantly in talks with units. However, there is no guarantee that they will seal the deals."

Promoters are, however, devising their own plans to get things moving. Praveen Dwivedi, CEO, India Food Park, says the park's

See interview with Sukhinder Singh at
businesstoday.in/foodparks-singh

promoter company, Future Consumer Enterprise (a Future Group company), has set up various operations to process products at the MFP. Says Balkrishna: "Food parks should not just be a facilitator of infrastructure. They should also be involved in production and marketing. A small entrepreneur will find it difficult to sell the product on his own, but the presence of an anchor brand will give impetus to the food processing industry and encourage smaller players to move into these parks."

Some are also trying to generate revenues by offering the existing facilities to third-party units to gain traction. For instance, Srini Food Park has tied up with Mother Dairy, and a couple of other exporters, who use the facilities at the MFP and pay on the basis of volumes. Srini charges ₹6.50 per kg of finished product for pulping, ₹0.50 per kg of products stored at the cold storage facility per month, ₹2 per kg per month for freezer rooms, and ₹1.75 per 200 ml of Tetrapak.

Acharya Balkrishna, promoter of Patanjali Food Park, Haridwar, Uttarakhand

"The food park should not just be a facility provider or a facilitator of infrastructure; they should also be involved in production and marketing. A small entrepreneur will find it difficult to sell the product on his own even if he sets up a unit in the park"

Land woes

Experts say the biggest issue in implementing the scheme has been the availability of land and the long-drawn process to change its use from agriculture to industrial land. Some states have also strict land ceiling and sub leasing laws, which makes the role of the state government critical for the project to get started. A food park promoter can either acquire industrial land from the state, or approach the state government to acquire land on its behalf, or buy land directly from land owners.

For example, India Food Park promoted by the Future Group suffered a delay of 18 months on land acquisition issues. After the project received an in-principle sanction in March 2011, it had to seek extensions to meet the September 2014 deadline. In fact, the promoters were fortunate that a special high level cabinet committee, chaired by Karnataka Chief Minister Siddaramaiah, gave a single window clearance to allot land to India Food Park through the Karnataka Industrial Areas Development Board (KIADB). Even then, there were issues that the Future Group had to deal with. "Against the allotment we made the full payment in March 2011, but approximately 84 acres of land was handed over to us in March 2012. Considering the land allotted to us was undeveloped, all possible clearances, including environmental and electricity, had to be secured by us. Usually, in an industrial area these approvals are the responsibility of the developer (KIADB in this case). Since no application can be made for any clearance without possession of the land in favour of a special purpose vehicle (SPV), we could start this process only in April 2012," says Dwivedi. Finally, the SPV had to seek an extension of another six months after the mega park was inaugurated in September 2014 to formally complete the 110-acre project with an investment of ₹200 crore.

"If the intent of the promoter is right and land is acquired within the timelines, the project can easily take off," adds Dwivedi. However, in most cases land acquisition remains the biggest hurdle. For instance, the ₹1,150 crore, Kolkata-based Keventer Group, which is primarily into agro and food processing, got the final approval from MoFPI in November 2011 for the Keventer Food Park in Bhagalpur, Bihar, but could not ensure the 50 acres of contiguous

land for the food park within the time. Subsequently, its in-principle approval was cancelled in June 2014.

Mayank Jalan, Managing Director, Keventer Agro, says the ministry was more than fair in cancelling their approval. However, he believes that Bhagalpur was a bad experience for the group because the state government did nothing to facilitate the project. "We had bought 50 acres of land from the Bihar government by making full payment for the land within seven days. When we wanted to start work we could not get possession of the land due to protests. There was no willingness on the part of the state government to see the project through," says Jalan.

LAND BANK EDGE

Out of the 17 food parks which were sanctioned in 2015, seven were allocated to state government

Future Tense?

Out of the 42 parks allocated in the first four phases, work has started only on 25. The Centre cancelled allocations of 17 projects, including the much-talked about Shaktiman Mega Food Park at Jagdishpur, in Uttar Pradesh's Amethi district. Interestingly, the inter-ministerial approval committee meeting held on February 11, 2014, under the UPA regime, had granted an extension to the project till March 31, 2014, failing which the approval stood cancelled without any further notice. However, the final announcement of the cancellation came during the NDA regime when the inter-ministerial committee met on June 30, 2014, as Shaktiman failed to meet the conditions in spite of many extensions.

In March 2015, fresh allocations were made for the 17 MFPs by the Ministry. While 10 private players, including Adani Ports and Special Economic Zone, Jain Agro Trading Company, and Ruchi Acroni Industries, were allocated rights to develop MFPs, the rest were allocated to state government agencies such as Andhra Pradesh Infrastructure Corporation, Haryana State Industrial and Infrastructure Development Corporation and Kerala State Industrial Development Corporation, among others.

The government's move to allocate MFPs to state-run public sector companies is also being questioned by industry observers. They argue that most of the 56 food parks, commissioned along the lines of the initial scheme for food parks during the 8th to 10th Plan Periods to state industrial development agencies, fell far short of expectations. According to industry insiders, the ministry had commissioned external agencies, such as Entrepreneurship Development Institute of India (EDII), Ahmedabad, and Consulting Engineers, to evaluate the inherent flaws in the scheme and its implementation. The reports submitted to the ministry said the food park projects were conceptualised in the traditional industrial estate mode with no forward and backward linkages and, therefore, resulted in valuable real estate being acquired but utilised at low levels of efficiency. The reports said there were delays in providing basic infrastructure facilities, such as power, water and road, and the state-run PSUs did not have capabilities to implement the projects due to poor management.

In fact, based on extensive consultations with stakeholders, the earlier food park scheme was done away with to come up with the MFPS during the 11th Five Year Plan. Since state-developed food parks were non performers, it was decided to bring in private players. Most experts feel that since land acquisition and change in land use are central to setting up of mega food parks, state government agencies have been given approvals because they have the requisite land bank. However, insiders feel to run food parks successfully, vision and management will be more important in the long run, and state-run PSUs may be wanting on that front.

Industry observers say private players, who have enough resources to hold on to a project for a longer period of time before it breaks even and starts making profits, could be the answer to bring about the much-needed growth of the sector. However, big players are weighing their options. Says Sanjiv Puri, President, FMCG Business, ITC: "We looked at the scheme and evaluated it. The MFPS envisages multiple

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manufacturers with shared facilities and, hence, it is suited for small and medium enterprises, as the combined investment required is ₹100 crore. Large investments, such as the ones we are considering, should also be given an MFP status. This will encourage more investment in food processing and would in turn bring in greater efficiency as well as reduction of wastage in the agriculture segment."

Even as the existing mega food parks are trying to figure out the right business model, many players are showing interest in the scheme. Says Girish Aivalli, Managing Director and CEO, Rural Agri Ventures: "The scheme has a large-scale appeal and is probably the most important government scheme for the food processing industry. We shall surely apply for an MFP licence next time, when the government invites expression of interest."

The Keventer Group, in the meanwhile, has been able to acquire 55 acres of land through direct purchase from land owners, and is waiting to go ahead with its plan to set up the food park in Bhagalpur. However, the company will have to wait for a nod from the ministry as it is in the MoFPI's waiting list.

The idea of shared infrastructure to boost the food processing sector may appear sound, but questions around the economic viability of these projects and a host of preconditions set by the government, seemed to have raised doubts in the minds of entrepreneurs, big and small. Unless these issues are looked into, the scheme for mega food parks may not realise its full potential.

WITH INPUTS FROM
CHITRA NARAYANAN

"Our aim is to help farmers, cut wastage and create jobs"

SHEKHAR GHOSH

HARSIMRAT KAUR BADAL, *Union Minister of Food Processing, wants to set up at least one mega food park in every state. The idea is to build infrastructure and boost the farm and food processing sector, which in turn will benefit farmers and generate jobs for locals. In times when the scheme is in the news for all the wrong reasons, Badal tells* **SARIKA MALHOTRA** *how MFPS will be central to Make in India. Excerpts:*

The Mega Food Park Scheme has not taken off the way it should have. Why so?

The scheme was launched in 2008. The gestation period was 24 months. Whatever was sanctioned in 2008/09 should have come up by now. However, when I took over last year, (I realised that) out of the 42 food parks that were sanctioned, only two had become operational. In 50 per cent, practically no work had started. There were certain inherent flaws. For example, it was a huge challenge for promoters to get (the mandatory) 50 acres of land. CLU (change in land use) from agricultural to industrial was also a challenge. Sub-lease approvals took time. It also seemed that most developers were interested in the ₹50 crore grant; and considered the land (for the park) as a real estate proposition. They never had the intention to put up an MFP. There were 17 developers who had got in-principle approvals but had done nothing. They were just writing letters for extensions. So, the inter-ministerial committee decided to cancel their approvals and allot to those who had the intention to build them and already had a head start.

What steps did you take to rectify the situation?

We looked into each case specifically and found that some of them are not going to see the light of day. Once we cancelled the 17 projects, we got 150 (fresh) applications. We had a very transparent system to grade them for selection. We had learnt from past mistakes, so we started giving more marks to those who already had land. The idea is to create the infrastructure within the time frame to help farmers, cut down wastages and generate employment. We have also made a food map which mentions the availability of raw material in each state to help entrepreneurs know where to start

See interview with Harsimrat Kaur Badal at
businesstoday.in/foodparks-badal

from. We do a lot of hand holding. We have also set up a portal where investors and entrepreneurs can ask questions, make suggestions and connect.

What were the other missing links?

We found that once the promoter had put up the core infrastructure they were not interested in sub leasing it. The whole concept of mega parks was to have smaller players use the facilities at the MFP. But the promoters made the sub lease amount very steep so that smaller units could not use the facility. Now, we have held back the last instalment of the grant. Until they get 25-30 per cent of external units in the park, we will not release this amount. Another issue was of primary processing centres (PPCs), benefits of which would go up to the farm gate level. Maximum wastages happen at this stage. Promoters were keen to reduce them. But we had to put our foot down and told them to comply with whatever was stated in the detailed project report. We had to monitor every case in a more focused and balanced manner so that it impacts the well being of the farmer.

What steps have you taken to realise your goals?

We have followed a twofold approach: On one side 17 new MFPs and 30 new cold chains have been announced. On the fiscal side a ₹2,000-crore corpus in NABARD has been created to encourage units to move into food parks. With affordable credit at 9 per cent interest, more entrepreneurs will think of putting up a unit in an MFP. We have also facilitated priority sector lending by RBI for food processing; brought down the excise duty on import of plant and machinery from 10 per cent to 6 per cent. These steps will boost the sector and make it more competitive. Besides, we are coming up with a skill council to ensure skilled manpower is available for this industry. My vision is eventually to help the the farmer. It is essential that a farmer is in a position to add value to his products and increase his income. Infrastructure must be built in such a way that processing units for whatever the farmer grows should be within his reach. We want to create this infrastructure at the farm level through PPCs. We are the largest producer of milk; second largest producer of fruits, vegetables and cereals; third largest producer of marine and livestock. But, only 10 per cent is getting processed. If you look at the wastage figures, they are mind boggling. Our population is the second largest globally and is increasing 1.5 per cent every year. Therefore, land for cultivation is shrinking. So, there's no space for wastage. Our prime focus is to make it zero wastage and, for that, we need to create infrastructure, with good storage facilities and processing units for all farm produces. As a consequence, inflation will also come down.

Have you set any targets for the next two years?

The gestation period of food parks is 30 months now from 24 months. So, my targets are very clear: timelines must be met. I am trying to ensure that serious players are not stuck in red tapism by increasing the online interface in my own ministry and having a transparent system, by reducing paper work so that they do not have to come here and hope to get their grant released on time. It should be automatic. My aim is that the 42 MFPs come up as soon as possible, within the time frame. And, this will show what impact it can have on the ground. And, I believe, it will have a very positive and major impact.

"I am trying to ensure that serious players are not stuck in red tapism by increasing the online interface in my own ministry and having a transparent system"

Make in India is important for the government. Do you see MFPs as a part of the initiative?

The 42 mega food parks will bring in a lot of investments and once they become operational will create five lakh jobs and benefit at least 12 lakh farmers. We have made the entire system more transparent to ensure ease of doing business. We are creating infrastructure for investors to come and plug-and-play at the food parks. It is a huge step in the direction of the Make in India initiative. I feel there is bigger potential for cold chains, too. We have already announced 30 new ones. This will form a seamless grid from the farmer to the consumer. ◆

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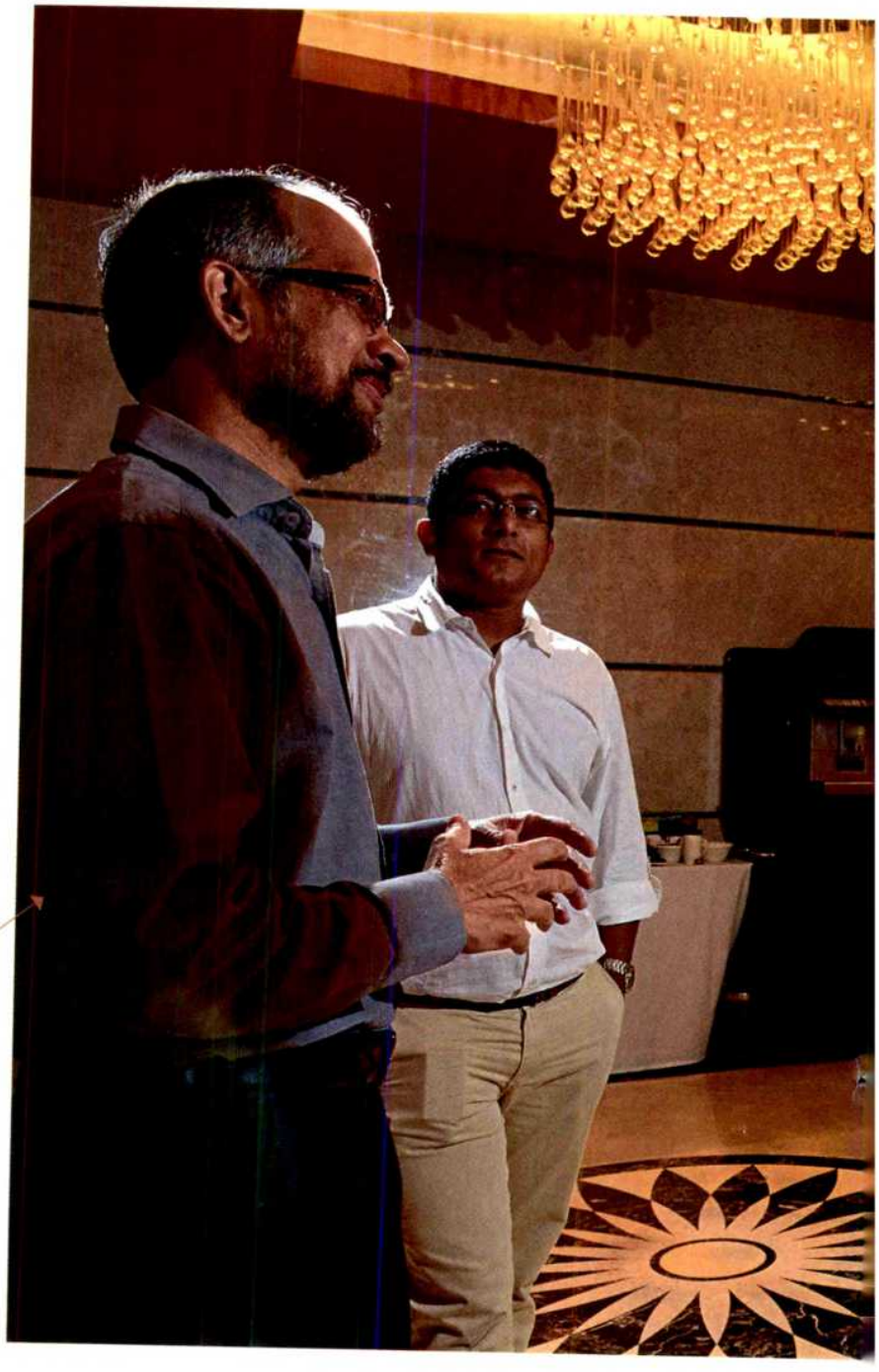
INDIAN FAMILY BUSINESSES ARE INCREASINGLY SEEKING MENTORS FROM OUTSIDE TO GIVE THE NEXT GENERATION A ROUNDED EXPERIENCE.

By E. KUMAR SHARMA



Prof Kavil Ramachandran of ISB with the Gen Next at the ₹1,600-crore Paragon, a leading footwear company, during a mentoring session in Bangalore

Learning from

NILOTPAL BARUAH

the Masters

I have a bright CEO but he is spoiling my organisational culture. What should I do? My father is very dominating and tends to blindly rely on some executives. How do I make him see my point of view? How should I approach negotiations? How do I manage independent directors?
Should I go to Davos at all? Will it help me? How do I network?

These are some questions that family-led business leaders in India, mostly from the next generation, are grappling with and seeking answers to from their mentors. "Increasingly, and especially over the last three to five years, Indian family business leaders are seeking outside mentors as they are becoming aware of the challenges ahead. Be it those relating to communication, consensus, ownership, transfer of ownership, retirement, succession or even building leadership," says Kavil Ramachandran, Executive Director, Thomas Schmidheiny Centre for Family Enterprise at the Indian School of Business (ISB), who is usually mentoring half-a-dozen such business honchos at any point in time.

Indeed, it's a perceptible trend now and there have been clear triggers for this development over the last three to five years. First, many of the Indian family-led businesses are entering a phase where the next generation is taking over the reins of the business. Some prominent examples include the Future Group, Wipro, Adani Group, Videocon Industries, TVS Motor Company, VIP Industries, Datamatics and Piramal Enterprises. Second, increasingly Indian business families are nuclear families. This means the absence of the joint family patriarch who the next generation traditionally turned to for guidance. Third, the past 10

years have seen the coaching industry in India take formal shape. There is an awareness of the need for executive coaching, especially for business leaders in new roles. There is a realisation that mentoring is crucial, more so at the time of succession. Also, it is now being recognised that growing competition makes it necessary to understand how other businesses are faring and to draw analogies and lessons from them with the help of a mentor from outside. It is lonely at the top and an unbiased guide is a good support for business leaders, feels Rahul L. Kanodia, Vice Chairman and CEO of the $150 million Datamatics Group.

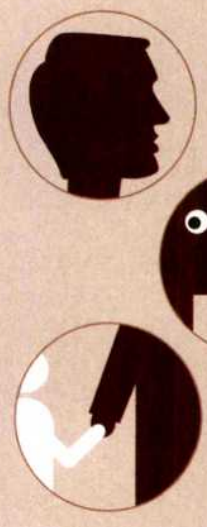
And help is being sought to address different concerns. "The questions before a typical mentee today have less to do with subject knowledge and content in terms of how to grow the business, etc., but are more about style, collaboration, teamwork and relationships," says Prasad Kumar (known in the Indian family business circles as P.M. Kumar), Business Chairman, Institution Building and Governance at the Bangalore-based GMR Group. Kumar mentors half-a-dozen leaders across multiple family businesses. "Mentoring is an end-to-end involvement that is focused on the world view transformation of the individual and his or her consciousness," he says. Prasad spoke to *Business Today* in his personal capacity. In March last year, he was instrumental in starting a first-of-its-kind, not-for-profit Parampara Family Business Institute under the GMR Group. Its aim is to aid the development of family businesses.

IT IS NOW BELIEVED THAT GROWING COMPETITION MAKES IT NECESSARY TO UNDERSTAND HOW OTHER BUSINESSES ARE FARING... WITH THE HELP OF A MENTOR FROM OUTSIDE

Succession in a family business often results in a change in business strategy. "There is a growing realisation that succession is not an event and could also mean succession in strategy," says Kumar.

But then, why turn to external mentors and not the patriarch, usually the father, the man who has seen the ups and downs and followed a discovery-led business journey? There is the obvious desire to be open to new ideas. Also, it may not be easy for a father to suddenly transform into a mentor. "There are some limitations as this is a personal relationship where the two need not necessarily be open to each other in all aspects," says B.V.R. Mohan Reddy, founder and Executive Chairman of Cyient, the ₹2,000-crore IT company from Hyderabad. Reddy's son Krishna Bodanapu, the company's MD and CEO, has been consulting a mentor for the last three years. The arrangement is working well, says Reddy. M.M. Murugappan, Vice Chairman of the Murugappa Corporate Board, and an independent director at Cyient, "oversees Krishna". But Krishna is "mentored" by Ravi Bhoothalingam, former president of the Oberoi Group, who also

THE BIG PICTURE: The growth of executive coaching for business leaders has built an awareness about the need for mentoring, especially during succession



WHAT IS IN IT FOR THE MENTORS

- There may be a fee and an opportunity to see their intervention yield results at close quarters

FAMILY BUSINESSES THAT SEEK MENTORS

- Those making leadership transition or facing internal family issues
- Usually leading growth-oriented medium to large organisations

WHY MENTORS ARE SOUGHT AFTER:

- To help companies stay abreast of emerging business trends globally
- To cut the cost of experimentation and compress the learning time
- Indian families are becoming nuclear. Thus, proper mentoring is often missing in family-run businesses
- To hone skills related to collaboration, teamwork, negotiations and networking

last four years. "It makes a lot of difference when Ram (as Joseph refers to Ramachandran), with his stature and calm and composed manner, backed by data, makes them see things in a different light. They listen to him," says Joseph. In fact, Ramachandran also mentors their spouses. That is because,

"THERE IS A GROWING REALISATION THAT SUCCESSION IS NOT AN EVENT AND COULD ALSO MEAN SUCCESSION IN STRATEGY"

PRASAD KUMAR, Business Chairman, Institution Building and Governance, GMR Group

happens to be on the board of drug maker Dr Reddy's Labs.

Others agree with Reddy's views. "I can guide people based on my experience in growing the business and people management but mentoring is not my core competency, which is why I may not know the best tools and techniques that will ensure best results," says Reji K.Joseph, Director of the ₹1,600-crore Paragon Group, a leading footwear company from Kerala with an all-India presence. He has been the internal mentor for all the next-generation members of the family of nine cousins jointly leading the business. Incidentally, even in the next generation, there are nine members. A family constitution is being drafted. The Paragon family has been in touch with Ramachandran for the last four years. "It makes a lot of difference when Ram (as Joseph refers to Ramachandran), with his stature and calm and composed manner, backed by data, makes them see things in a different light. They listen to him," says Joseph. In fact, Ramachandran also mentors their spouses. That is because, Joseph feels, "even ladies at home have an important role to play in the way their husbands behave and conduct themselves at the workplace".

But mentoring is not a one-size-fits-all. Nabankur Gupta, founder CEO of Nobby Strategic Management & Family Business Consultants, cites an example. "Three years ago, I was involved in mentoring the daughter of a large industrialist based in North India. She was distressed due to some personal relationships, which were impacting her and her work. I had to work with her almost as a father figure," he says. "I did personal and professional goal setting for her and helped her bounce back."

Most tend to prefer more than one mentor. G.V. Prasad, Co-Chairman and CEO of the ₹14,820-crore Dr Reddy's Labs, for instance, turns to mentors with experience of managing large organisations. "I seek out people who have had experience in managing growth and innovation and I have certainly benefited from it. For instance, I was not a good listener in the early parts of my career and I worked on my listening skills. I have had experience with several mentors from my board members, from my peer networks and other industrialists. Some have pointed me to other mentors too. I also have paid advisors." Radhika Piramal, Managing Director of the ₹1,000-crore VIP Industries, too, has plenty of mentors, all of whom have helped her to continue learning and growing. "In addition to my father, who is very competent and my inspiration, all our board members have also been active mentors for me," she says. Piramal has often sought the counsel of people like Nabankur Gupta and Rajeev Gupta, with experience in manufacturing, investment banking and private equity, both members of the VIP board. Reaching out to them and others have helped her think things through better, she asserts.

And it is not just the generation next. Kishore Biyani, the founder of Future Group who also leads the ₹14,000-crore Future Retail, often turns to consultants for guidance. When his two daughters entered the corporate world, he reached out to Ireena Vittal, the acclaimed strategy consultant. Also, both Biyani and his daughters have worked under the tutelage of management guru Ram Charan. "Ram Charan, who has been my mentor and coach, worked on the way I handle meetings and on how you summarise in the end and let other people speak more than you. That was a big learning for me," says Biyani.

Puneet Dalmia, Managing Director of the over ₹3,000-crore

Dalmia Cement (Bharat), gives a cricketing analogy to underscore the importance of mentors. Time spent with a mentor is akin to a net practice session before the World Cup for Dalmia, who feels a business gets a big advantage with an external mentor. "He has no emotional attachment to the situation you are in and so can bring in a more objective perspective He can be much more dispassionate." Dalmia has had an outside mentor for about five to six years now. "It has helped me get rid of my own past baggage. Now, I am much more calm, listen more and be more empathetic and understand what a colleague is going through as opposed to just giving my view."

Global gurus agree. "Outside mentors have a broad experience in business. They may not know the specific business well but they can listen and give an unbiased and objective advice to the next generation, who would listen to them more precisely because they would seem more objective," says John A. Davis, Faculty Chair of Families in Business at the Harvard Business School (HBS). While he is not mentoring anybody in India, he is "hoping to do more work with Indian families".

Swati Piramal, Vice Chairperson of the ₹5,000-crore Piramal Enterprises, says both her children – son Anand Piramal and daughter Nandini Piramal – have gained from mentoring inputs by industry doyens like Deepak Parekh (on the advisory board of Piramal Realty) and Keki Dadiseth (a board member at Piramal). Nitin Nohria, albeit much earlier to his becoming the dean at HBS, and Professor Bharat Anand, also of HBS, too have mentored the Piramal family children.

And it is not as if only big business families are seeking outside mentors. Consider Niyati V. Patel, 37, who last year took up a one-year, part-time programme at S.P. Jain Institute of Management & Research (SPJIMR). She then joined the 130-year-old family business started by her husband Viral R Patel's grandfather, Dinshaw Filteration Systems, an SME. At SPJIMR, she found her mentor in B.K. Vatsaraj, a chartered accountant and a visiting faculty member, and it helped. "Initially, I was very apprehensive and would always look to what others would think and say about what I do. Now, I set my own agenda and make a place for myself." Vatsaraj is currently Deputy Director, Centre for Family Managed Business at SPJIMR.

"OUTSIDE MENTORS MAY NOT KNOW THE SPECIFIC BUSINESS WELL, BUT THEY CAN LISTEN AND GIVE AN UNBIASED AND OBJECTIVE ADVICE TO THE NEXT GENERATION"

JOHN A. DAVIS, Faculty Chair of Families in Business, Harvard Business School

But for every Indian business family seeking an external mentor, there are others who tread a contrarian path. Arun Bharat Ram, Chairman of the over ₹4,000-crore SRF Ltd, says that different families are finding different answers, with some getting in outside mentors and others managing transitions on their own. He explains the approach his family is adopting. "We learnt how it is done in other families and did get consultants. Everyone in the family also attended courses on how to handle business transition and how to deal with professionals," says Ram, who has mentored his sons. "But ultimately we designed our own structure without outside help."

Y.K. Hamied, 78, Chairman of the over ₹10,000-crore Cipla, one of India's leading pharma companies, has a different take. He recalled his time at Christ's College, Cambridge, which he joined in 1954. He says his father, Cipla founder K.A. Hamied got him to meet Alexander Todd, professor of chemistry at Cambridge University who went on to bag the Nobel Prize and was later knighted. "You first need exposure and then mentoring and this is what Lord Todd gave me until his demise in 1997," says Hamied.

Still, there is no denying that external mentors have an important role to play. "Like in a game of golf where one degree shift in the direction of the club can have a hugely amplified impact on the outcome, similarly one strategic shift in thinking can completely transform the cost structure and position vis-a-vis competition," sums up Kumar of GMR. ◆

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Making more in India: Audi cars being assembled at its Aurangabad plant

Going Native

LUXURY CARMAKERS ARE INCREASING THEIR USE OF INDIGENOUS COMPONENTS AND EXPERTISE - BUT WITHIN LIMITS.

By DIPAK MONDAL

Luxury car manufacturer BMW recently announced it had achieved 50 per cent localisation across all its eight car models sold in India. Rival Mercedes-Benz declared soon after that two of its five models in India – its newly launched C220 CDI and the largest selling E-Class – have a localisation level of 60 per cent. There was a time when much of the appeal of luxury cars derived from the fact that everything about them was imported. No longer: today, both BMW and Mercedes-Benz proudly flaunt their indigenous content.

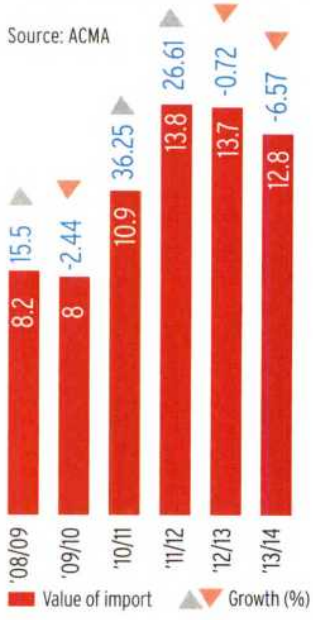
"Many components of our cars such as the engine, the axle, the dashboard, the gearbox, the wiring harness, etc., are assembled by local component makers in India," says Eberhard Kern, Managing Director and CEO of Mercedes-Benz India. "We do the bodywork, the welding and painting right here." Capacity at its plant in Pune has doubled over the past two years to 20,000 vehicles a year, with a total investment of ₹1,000 crore. The company's main component suppliers are Motherson Sumi Systems and Force Motors.

THE WHEELS ARE TURNING:
A snapshot of import duties and auto component imports

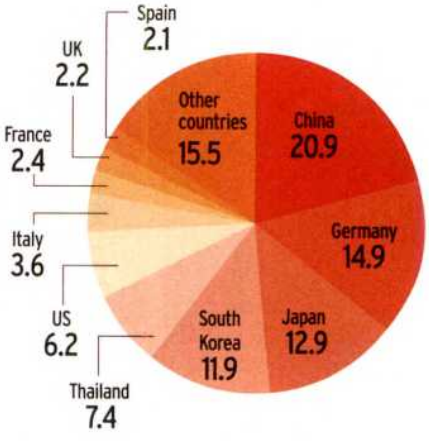
COST ESCALATION
The import duty on cars is high, while that of auto components relatively low

Source: Central Board of Excise and Customs

LOCAL EMPHASIS
The import of auto components has been falling since 2011/12



ORIGIN OF IMPORTS
Where imported auto components come from



All figures in per cent
Source: ACMA

RACHIT GOSWAMI

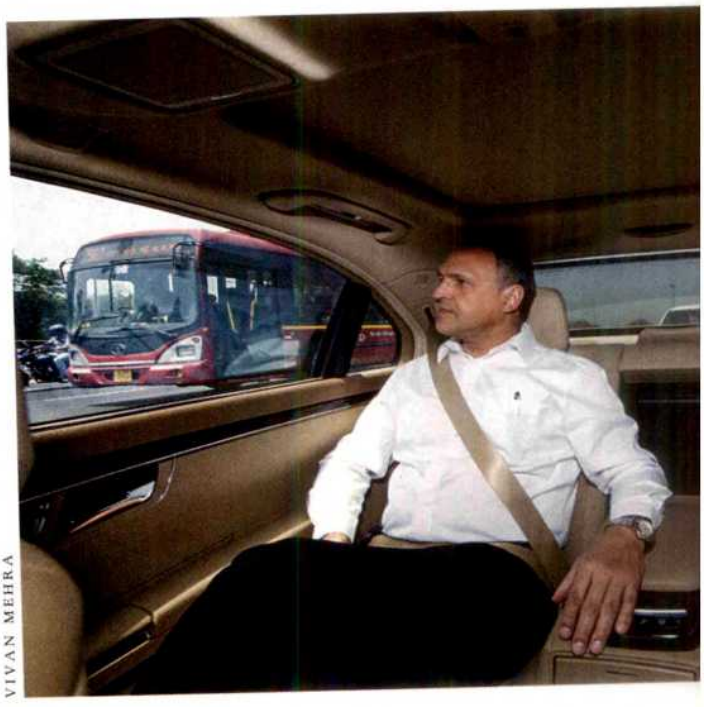
"Our localisation level was 20 per cent only a year ago, but now it is 50 per cent," says Philipp von Sahr, President, BMW India. "Unlike our rivals, our localisation figure (of 50 per cent) is across models and not just one or two models." BMW, which started India operations in 2007, has so far invested ₹490 crore – ₹100 crore in 2014/15 – increasing its Chennai plant capacity from 11,000 to 14,000 units annually. It gets its engines and transmission from Force Motors, axles from ZF Hero, chassis, door panels and wiring harness from Draexlmaier India, exhaust systems from Tenneco Automotive India, heating, ventilating, air-conditioning and cooling modules from Valeo India and Mahle Behr, and seats from Lear India.

The two other luxury carmakers, Audi and Jaguar Land Rover, were less forthcoming. Audi India head Joe King said 95 per cent of its sales volume was locally built at its manufacturing facility in Aurangabad, but did not elaborate. The Tata Motors-owned Jaguar Land Rover India manufactures four models at its Pune plant, having trebled production since it began in 2011. But the company did not share details of localisation. Volvo Cars is also trying to get a toehold in India but has yet to start assembling or manufacturing here.

> "Our products have a certain quality and customer satisfaction level, so we can ask for premium price"
>
> **PHILIPP VON SAHR,** President, BMW India

Read interview with Mahesh Kodomudi at
businesstoday.in/volkswagen-kodomudi

The luxury car market in India is still small. Leader Audi India sold 11,292 units across all models in 2014/15, followed by Mercedes-Benz with 11,213 and BMW with just over 6,000.


VIVAN MEHRA

Why Make in India

Even in the narrow, exclusive segment that buys luxury cars, price matters as much as comfort and brand value. It was this that prompted the global brands to set up assembling or manufacturing units in India – and thereby avoid the 125 per cent duty imported cars attract. Not that the entire benefit is passed on to the customer. When Jaguar Land Rover's Jaguar XJ 3.0 Diesel Premium Luxury model was imported, for example, it used to cost ₹1.25 crore. After local manufacturing began in May 2014, the price fell to ₹92.10 lakh, a reduction of just 35 per cent.

As a first step towards localisation, foreign manufacturers started importing cars in completely knocked down (CKD) units. Initially, the manufacturers started importing CKD units with pre-assembled engine, gearbox or transmission mechanism. In some cases, CKD units would have a chassis or body assembly on which the engine or gearbox or transmission mechanism would already be installed at the time of import.

> "Many components of our cars such as the engine, the axle, etc., are assembled by local component makers in India"
>
> **EBERHARD KERN,** Managing Director and CEO, Mercedes-Benz India

To promote local manufacturing, the UPA government in 2011 changed the definition of CKD units, and excluded such units as mentioned earlier from this definition. It also increased the customs duty on units with pre-assembled engine or gearbox or transmission from 10 per cent to 30 per cent. "This was the first trigger for luxury carmakers to change their strategy in India and start localisation of their cars," says Sugato Sen, Deputy Director General, Society of Indian Automobile Manufacturers (SIAM).

The duty on auto components is far lower at 7.5 to 10 per cent, but getting components made locally helps keep prices in check as well as improve margins. "BMW used to raise prices three or four times a year before, which, with increased localisation, has come down to twice a year," says von Sahr. But he admits prices have not been lowered as much as they could be. "We have to look at our price positioning, our competitors' price," he adds. "Our products have a certain quality and customer satisfaction level, so we can ask for premium price."

Local manufacturing speeds up delivery, too. "It gives us a lot of flexibility," says von Sahr. "We no longer need to wait for parts from the US, China or our headquarters in Bavaria, southern Germany." It also lowers labour costs. "India's labour wage rate is around $4.50 a day, while in China it is $6 and in Thailand $9," says Vinay Khattar, Associate Director and Head of Research, Edelweiss Financial Services. Compared to Europe or the US, the saving is even higher. "A locally manufactured engine system

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Master stroke: Cricketer Sachin Tendulkar assembling cars during an event at BMW's Chennai plant

would be 23 per cent cheaper on a landed cost basis in India than a comparable engine system made in Europe," he adds. "We have excellent engineering skills at competitive cost," says Vinnie Mehta, Director General, Automotive Component Manufacturers Association (ACMA) of India. "In Brazil and South Africa, which are also emerging markets like ours, the cost of manufacturing is 20-30 per cent more than in India."

Susceptibility to the vagaries of the currency market is reduced as well. Between April and September 2013, for instance, the rupee depreciated alarmingly – 25 per cent against the US dollar and 31 per cent against the euro – which would have played havoc with the financials of those importing components in large quantities. Overall, in the last two years, the rupee has fallen 16 per cent against the dollar (though it has appreciated 1.4 per cent against the euro). "Most luxury carmakers' margins dropped when the rupee fell," says Deep N. Mukherjee, Senior Director, Corporate Ratings, India Ratings. "By increasing localisation, the companies want to make their revenue immune to rupee depreciation, as well as to benefit from reduced duties."

Limits of Localisation

The relatively small size of the market so far, however, also limits the extent of localisation. "Many of the parts we use have to come from international hubs. As component makers, we do not produce them here because of the low volumes," says Kern of Mercedes-Benz. The assembling no doubt is all done in India.

Industry experts say there are three stages of localisation. In the first stage, the automaker imports all components, but assembles in the new market, in this case, India. In the second, it persuades its leading suppliers to start units in India, but the latter still import from their parents overseas. In the third stage, the leading suppliers also start sourcing from local component makers. The Indian market is past the first stage, but is hovering between the second and third. "Global automakers have now started measuring the level of localisation in these terms," says Rajeev Singh, Head (automotive sector), KPMG India.

Thus Force Motors, which supplies components to both Mercedes and BMW, assembles most of them, hardly manufacturing anything. "We assemble and test the engines for all Mercedes-Benz cars and SUVs," says Prasan Firodia, Managing Director, Force Motors. "We also assemble the rear and front axles, assemble and test the gearboxes." But there are also component makers like JBM Auto, supplying to both domestic and foreign auto companies, which manufacture as well as import. "We have 20 alliances. Some are joint ventures and some are technical tie-ups. We import some components from our foreign partners, while some are locally manufactured," says Nishant Arya, Executive Director, JBM Auto.

Ultimately, localisation can only increase in the future as the luxury car market expands. Some experts even feel, given India's numerous advantages, the country could emerge as an export hub for such vehicles. "The Indian auto component industry is large and well-accepted. We exported $10 billion worth of components in 2013/14, of which 60 per cent went to Europe and the US," says Mehta of ACMA. ◆

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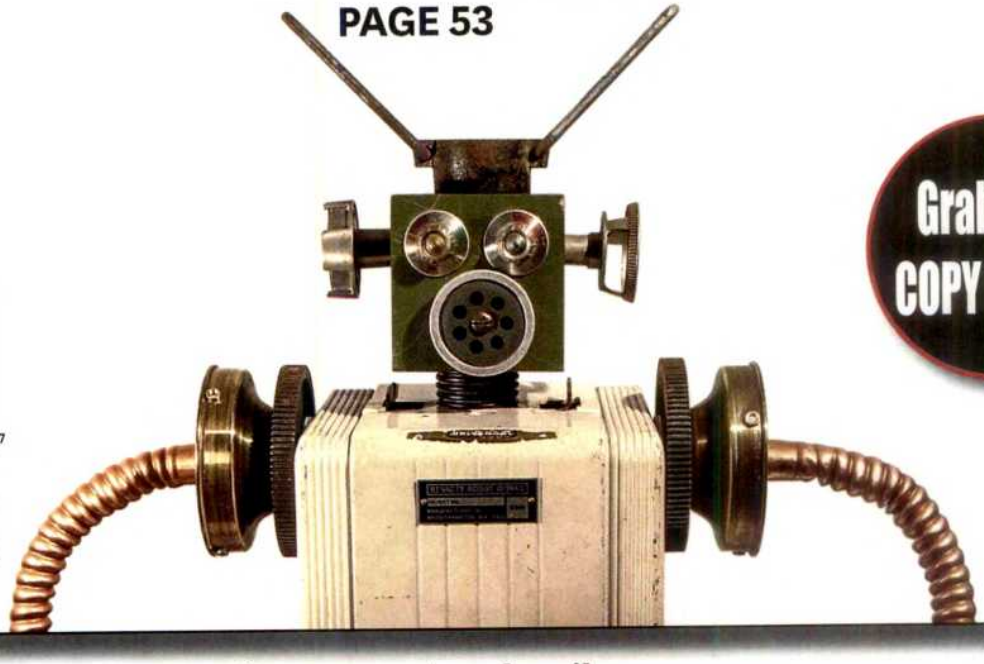

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Can Nestlé Bounce

It's a brand loved by one and all, but now Maggi is a banned word in many households. under threat in India. Or, is it? In the past, Intel, PepsiCo, Cadbury and Nokia, among a lessons learnt. *BT* asked **Santosh Desai** and **Prakash Bagri** to study the Nestle India's

By SANTOSH DESAI

It has earned a second chance

Nothing hurts a packaged foods company more than questions about food safety. In the case of Nestlé, these accusations come on the back of tests carried out by government agencies. And while the company has raised questions about the method of testing, it has had little choice but to withdraw one of its lead brands from a market in which it holds a dominant position. For Maggi, the issue of health was already a point of vulnerability and fears about safety hurt it where it matters. The company and the brand's image have taken a significant hit.

It hasn't helped that the company's handling of the crisis has been less than exemplary. Never a communicative company to begin with, it seems to have gone into an inarticulate shell, lapsing into generic corpo-mumble at a time when it should have spoken with clarity, precision and transparent honesty. In short, this is a crisis of potentially catastrophic proportions for Nestlé. But, as things stand [now], there are reasons to believe that Nestlé will be able to retrieve ground.

As a company, Nestlé enjoys a reputation of quality. It has maintained a low profile for many years now, and is not today a magnet for controversies unlike some other brands in the consumer goods space. This is not a company that consumers love to hate or even have a view about (at least not in India), for it goes about its business with quiet efficiency. Nestlé's generally positive image is useful at a time like this, but by itself not enough reason to believe that a crisis like this can be overcome.

Nestlé's real strength in this case is the power of Maggi, one of the few brands which provide real meaning to the lives of people and it has done so consistently over many years. Its dominant place in the market is not a result of advertising spends nor does it ride on the back of celebrity endorsements. These have obviously helped, but are not the real source of strength for the brand.

Maggi is dominant because it has almost singlehandedly ushered in an openness to new food ideas. It represented the exciting but accessible taste of modernity, in a form that was both new and familiar, and in a format that made it possible for everyone to cook up something delicious quickly. It gave mothers, harassed about getting some food down the throats of their recalcitrant children, a weapon that seemed to work every time. It wasn't seen as the healthiest food around, but mothers found a way around that by rationalising that they made it healthier by adding their own special ingredients. In many ways, Maggi was an open source idea, well before we started talking about that concept, as everyone developed their own special Maggi recipes.

That is the strongest reason why Nestlé will, in all probability, bounce back. The brand is owned by consumers and they have a stake in its success. That trust will take a knock, but on balance, the brand has done enough to earn a second chance, if it handles the current crisis with transparent honesty. It helps that the Indian consumer tends to be forgiving, and the flip side of the intense media attention the brand has received lately is that its moment in the sun will pass, and some other source of outrage will replace it.

But things will not go back to what they were, even as Nestlé bounces back. It is likely that health will now come into sharper focus and Maggi might well find itself gradually facing a battle for relevance. Forgiveness for the brand and company is likely, but absolution is not. ◆

***Santosh Desai** is MD & CEO, Futurebrands*

Back Post-Maggi?

It's a brand that brought in loads of revenues for Nestlé, but now its very existence is slew of companies, were each caught in the eye of a storm but came out with valuable case. Here is their take on whether the company's disaster management will yield results

By PRAKASH BAGRI

Wake up Nestle! Smell the coffee

I spent the formative years (1990s) of my professional life in the packaged foods business. Addressing the PFA (Prevention of Food Adulteration) Act, 1954 cases were a part and parcel of our lives. Globally, this was also the period when companies woke up to the reality of viral spread of bad news. I spent sizeable time with Intel, which learned this the hard way during the Pentium bug issue of 1994. The engineers at Intel had already discovered a division error in the new Pentium chip, but choose not to make the information public.

However, within a few months Thomas Nicely (a Math Professor in Virginia) identified the chip within his systems as the source of consistent errors, and brought it to the notice of Intel, with the issue reported in an esoteric academic journal. Within a few weeks it started doing the rounds of the Internet and the story was picked up by CNN. Andy Grove, CEO of Intel, went onto set the record straight. He wrote a memo pointing out that the error would only affect "users who are engaged in heavy-duty scientific/floating-point calculations" and the company came up with a complicated replacement policy involving lengthy evaluations of whether the user required advanced math calculations!

The whole thing backfired. The story spread like wildfire globally, with damaging headlines like *Flaw Undermines Accuracy of Pentium Chips* (*New York Times*) and *Chinese Thaws and Pentium Flaws* (*The Irish Times*), and customers were up in arms. This was the time when Grove showed his legendary skill to course-correct and Intel changed tack, offering to replace all flawed Pentium processors. Finally, only a small fraction of the consumers actually bothered to get their chip replaced. Though Intel spent $745 million to address this, it provided a valuable lesson to the company that it was no longer an innovative start-up but a global IT giant. It implemented several actions to win back the public's trust and confidence, going on to become the seventh most valuable brand and one of the most admired global companies.

Twelve years ago Cadbury India found itself in the eye of a similar storm, when a few instances of worms in its Dairy Milk bars were reported in Maharashtra. The Food and Drug Administration (FDA) seized stocks from the company's Pune plant. The company was slow to react, and maintained that it was not manufacturing but poor storage that could have led to the infestation. This led to allegations and counter-allegations and the FDA commissioner volleyed back stating sub-standard packaging was the issue, and either ways a company is responsible not just for manufacturing, but also how and where its products are stored before it reaches the customers.

The blame game did not help Cadbury, and its sales was down by 30 per cent during the festival period. However, what Cadbury India and Bharat Puri, its CEO, then did is important. The company took advertising off the air, launched Project Vishwas to educate its retailers and simultaneously invested heavily in modern equipment and better packaging. It subsequently relaunched with greater vigour roping in superstar Amitabh Bachchan for a mega-campaign blitz.

So, where does the current Maggi controversy fit in? Despite being forced to take action, Nestlé India still seems to be in denial and victim mode.

***Prakash Bagri** is founder & CEO, PRB Partners. He is also visiting faculty & professor at IIMs Ahmedabad, Bangalore & Calcutta*

Whatever comes of this controversy, it will go down in the annals as one of the worst examples of disaster (mis)management by a business.

Here's a quick take on what Nestlé did or did not do, and could have done.

■ **Where is your management?** During these periods the CEO should take the lead. Etienne Benet, who took over as CEO of Nestlé India less than a year ago, is completely missing in action. Unfortunately in such cases, out of sight is not out of mind. Absence allows FUD [fear, uncertainty and doubt] to spread. During the Cadbury bar crisis, Puri was actively engaging with the media. For me the clincher during the whole period was when Puri appeared in a TV interview and as the reporter was showing some packages, chose to pick one of them up and munch away! This act more than anything else went a long way to assuage fears and reassure that all was well with the Cadbury bars.

■ **How could you continue selling?** An immediate decision to stop sales, and pull-back all stocks of Maggi till tests are conducted would have cost the company at best ₹300 crore to ₹400 crore, compared to its turnover of around ₹10,000 crore last year (less than 0.1 per cent of its $250 billion market cap). A significant cost, no doubt, but completely reasonable when compared with its equity as the fifth most trusted brand in India (in its category). It still had to do it, but by now appears a step too little, and too late. Instead, one heard stray incidents of Nestlé sales team pushing promotions to liquidate stocks. Compare that to 1982, and J&J [Johnson & Johnson] responding to the Tylenol crisis in the US (when a stray killer had laced some capsules with cyanide) when the company immediately withdrew $100 million worth of stocks and production rather than risking people's lives, and instead offered a $100,000 prize for capturing the killer!

■ **Silence is not golden:** Crisis does not need officious press releases and denial of guilt. What it needs is a clear expression of concern and humility, and more importantly an intent to correct the issue, rather than absolving oneself of blame. In 2007, when there were some concerns arose regarding Nokia's BL-5C batteries exploding, the company acted proactively with immediate replacement and advisory to customers, including its then India CEO D. Shivakumar actively engaging with media to address all customer queries. Instead, Nestlé went into complete silence on the one hand, and even when bowing to pressure chose to play victim. Nestlé's corporate website starts with "MAGGI Noodles are completely safe, but Nestlé India has decided to temporarily take the products off the shelves"! Thank you so much, but playing victim won't help.

Despite being forced to take action, Nestlé India still seems to be in denial and victim mode... It will go down in the annals as one of the worst examples of disaster (mis)management by a business

■ **Solve the issue, goddammit!** In the US, when Pepsi cans were rumoured to be tampered in 1993, the company came out strongly with reports and videos on the canning process and collaborated openly with the US FDA (including its CEO co-appearing with the FDA commissioner on prime-time TV to assuage people's fears, as well as investigating and finding miscreants responsible for the tampering). It's surprising that there is not a single story in the press talking about the whole issue of "permissible levels", and explaining what is the point. The hue and cry is completely understandable, since at the core of the issue is the lives of people, and that too mostly children, at stake. Reassurance is must and action critical. The most important thing is to take action. Nestlé has been caught napping.

The key essence of managing a disaster is to acknowledge it, root-cause it and then get into solution. This is not the time to dilly-dally and count pennies. This is not the time to take a backseat. This is the time to lead. Nestlé India has been sadly found wanting! ◆

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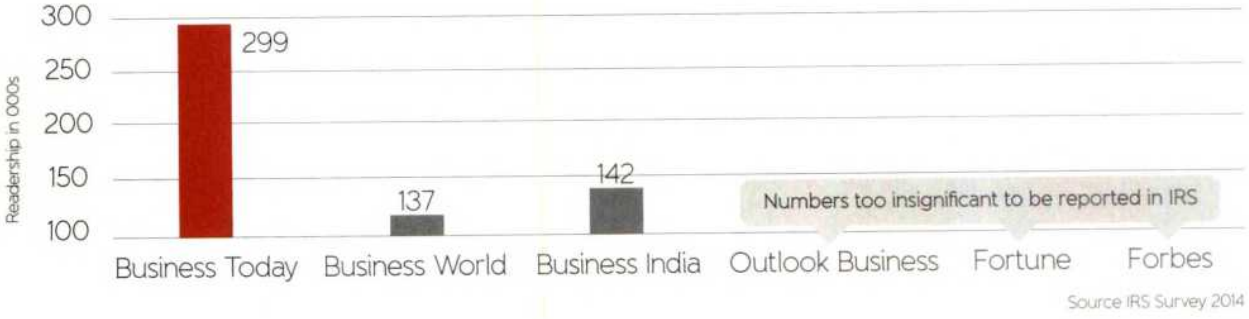

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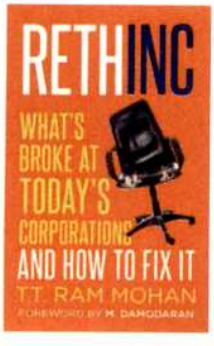
FOR MANAGING TOMORROW

RAJ VERMA

The Case for a 'Bossless' Organisation

Companies like Semco have radically departed from the traditional command and control structure and introduced total workplace democracy. It's a very difficult management model but can some bits of it be replicated in other corporations?

By T.T. RAM MOHAN



Ricardo Semler's story is what business legends are made of. Semler was all of 19 when he joined the family business, Semco, a manufacturing company based in São Paulo, Brazil. The company was doing poorly. Semler felt the company had no future unless it radically changed its ways. He told his father he needed a free rein – or he would quit. His father gave in.

Semler became the CEO of the company in 1980 at the age of 21. His first action on day one was to fire 60 per cent of the managers. He then proceeded to turn the traditional corporate model upside down in ways that have made Semco an icon of workplace democracy. At Semco, employees decide their production quotas, set their own salaries as well as decide what class to fly when they travel and which hotels to stay at. They come and go whenever they please, have a say in deciding who gets to be their boss and have full access to all financial information. The company gets along very well even in Semler's absence. When Semler is away on vacation, he doesn't leave a contact number nor does he call in to check on what's happening. These are only some of the seemingly crazy things that happen at Semco.

And, yet, there's a method to its madness. By trusting its employees and empowering self-driven teams, Semco has multiplied its productivity and profits manifold. When people read about the way Semco is run, they ask in disbelief: You mean, a company can actually work like this? The Semco model is based on three principles: democracy, profit-sharing and information. The three

This is an edited excerpt from a chapter The Boss Stops Here *from the book* Rethinc: What's Broke at Today's Corporations And How to Fix it. *Excerpted with Permission from Random House India*

principles are all interdependent. Leaving out any one would render the other two meaningless.

To Semler, democracy at the workplace means giving employees all along the line a say in decision making. For this to happen, three conditions must be met. First, business units in a company need to be reasonably small. Being large-sized is an obstacle to democracy at the workplace. Semler thinks the optimum size for a business unit is 150 employees – at that size, people have a sense of belonging. Beyond this size, things get too impersonal. So Semler keeps his business units at that level.

Secondly, hierarchy must be kept to a minimum. Semler has only three levels in his company: counsellor, partner and associate. Counsellors form the corporate office of the company – they are the people who provide overall direction. At any given time, there are only five or six counsellors.

The next level comprises partners. These are the heads of divisions. Finally, there are the associates. Some of the associates may be temporary team leaders – these team leaders are called 'coordinators'. So there are just three work levels and four job titles. The only person an associate reports to is the coordinator. No coordinator reports to another coordinator. Thirdly, for democracy to be possible at the workplace, the pyramid – a metaphor for the small number at the top lording over a large base of employees at the bottom – needs to be inverted.

WHAT ARE SELF-DRIVEN WORKPLACES LIKE

Key attributes of workplace democracy at four organisations

CHARACTERISTICS	SEMCO	IIM-A	W.L. GORE	MORNING STAR
Flat structure	✓	✓	✓	No layers
Self-driven employees	✓	✓	✓	✓
Elected leaders	✓	Partly	✓	No formal leadership positions
Egalitarian pay	No	✓	No	✓
Freedom to question, dissent	✓	✓	✓	✓
Peer review	✓	Limited review*	✓	✓
Mutliple interviews for hiring	✓	✓	Not spelt out	✓
Larger organisational purpose	✓	✓	Not explicitly built into performance review	No

*By subordinates (students); informal review by colleagues; Source: RethINC

At Semco, the pyramid gets inverted in several ways. Nobody's hired or promoted until he has been interviewed and accepted by his subordinates. Twice a year, subordinates evaluate managers. The company takes anonymous feedback every year from every employee about company credibility and top management competence. Some important decisions are decided by vote in the relevant decision-making group. Semler himself has been outvoted several times.

Workers have a say in the wages they get. Some of the workers belong to unions. For them, wages are determined through collective bargaining. For the others, the starting point is a survey of salaries in the market. The data is made available to workers, who are then asked to specify how much they would like to be paid. By and large, workers determine wages that are reasonable in relation to their contribution. If it turns out that somebody's pay is not justified by the contribution he makes, it's conveyed to him. He can then be asked to do some other job – or leave. Democracy at Semco is reinforced by two other principles: profit-sharing, and transparency or extensive sharing of information. Semler believes that profit belongs as much to the workers as to the shareholders. He's clear that profit-sharing is an important motivational tool. Most companies would readily agree. But the link between performance and reward in the typical company isn't always obvious. It's always the person above you or at the top who decides who is to get what sort of reward. Besides, many companies limit profit-sharing to a small pool of employees, mainly top management. At Semco, profit-sharing happens in a different way. All divisions have a profit-sharing plan. Twice a year, 23 per cent of post-tax profit of each division goes to the division itself. Three people elected by the employees of the division decide how it's to be shared within the division. In most divisions, the profit is equally shared amongst employees. Perhaps that's why profit-sharing at Semco works. The criteria for profit-sharing are clear and the sharing itself happens with the

involvement of all employees. Unlike in 75 other companies, it's not the bosses who decide how much each underling receives.

The third principle at Semco is: transparency or sharing of information. Semco shares the balance sheet, profit and loss statement and cash flow statement of every division with the members of the division every month. After some experimentation, the number of items in the three reports was pruned to seventy, which made it easier for employees to understand the numbers. Budgets are compared with monthly results. Semler sums up his philosophy, 'Participation gives people control of their work, profit-sharing gives them a reason to do it better, and information tells them what's working and what isn't.' Semler's sensitive to the central problem of the corporation that Peter Drucker highlighted: the dichotomy between the principles of a liberal society and the way companies work.

By trusting its employees and empowering self-driven teams, Semco has multiplied its productivity and profits manifold

Semco's way of resolving this dichotomy has been to do away with working hours, dress codes, rules, regulations and manuals. It trusts workers to do the right thing in every situation. In São Paulo, where traffic jams were maddening, it made no sense to specify working hours. It was left to workers to determine their timings. They coordinated with each other and arrived at a schedule that was convenient to all. Semler has brought into his company the spirit of participation and free expression that animate a democracy.

There are many other elements that make Semco tick. The company insists on job rotation every two to five years to prevent boredom. It believes in job security. Procedures for removing people over the age of fifty or those who have been with the company for more than three years are complicated. Long-serving employees cannot be given marching orders all of a sudden, with the security guard escorting them out after they have received the pink slip. Trust in employees is taken to what normal companies would regard as an extreme: there are no security searches, audits of petty cash and the like. Semler explains the philosophy, 'We just refuse to humiliate 97 per cent of the workforce to get our hands on the occasional thief or two-bit embezzler.'

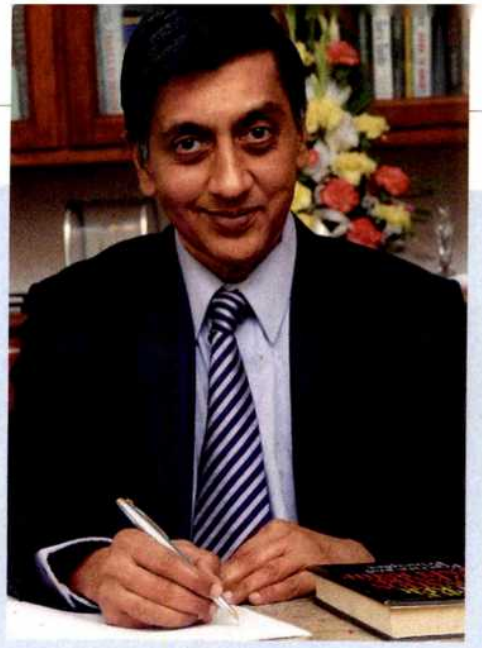
Does it all work? In 2012, Semco was said to be growing revenue and profit at 40 per cent. Are Semco's practices replicable at all? Or are they something that happened in one special company with one special person at the top? In his autobiography, *Maverick*, Semler answers this question with a telling anecdote. Semler had finished speaking to a group in Brazil, when one member of the audience, a doctor, wanted to know whether all that Semler had said meant anything for his hospital-and-pharmacy business. Semler asked for permission to talk to the smallest pharmacy in the business, which accounted for one per cent of sales. Permission was granted. Semler spoke to the employees of the pharmacy a few times and sent them a copy of his book. The doctor agreed to leave all decisions to those employees. Six months later, as agreed, the doctor called to report the results. The pharmacy had three employees,

"INDIVIDUALS ARE ENTIRELY NOT ON THEIR OWN IN BOSSLESS OFFICES"

IIM-A professor of finance and economics **T.T. RAM MOHAN**, *who has authored* Rethinc, *tells* **CHITRA NARAYANAN** *it's possible for corporations to transition to a bossless model: Excerpts:*

Workplace democracy sounds like a recipe for anarchy. How do you ensure that all employees set their targets and salaries correctly?

Well, it all depends on what you mean by workplace democracy. It's not a free for all, by any stretch of the imagination! Nor does it mean that individuals are entirely on their own. Mostly, it's about people working in self-driven teams. Individuals don't decide their targets on their own. They do so as members of a team. The team sets its target for the year, in consultation, of course, with other teams and with top management. It's the team that then collectively decides the allocation of targets and evaluates the performance of individuals against targets. The team itself is evaluated against its targets by top management and gets its share out of the total bonus pool. The allocation of this reward within the team is again determined within the team. So, performance happens through a peer culture and a sense of pride in the individual. I guess the key difference with respect to the traditional hierarchy is that there is no boss up there who takes all the decisions. I don't know if heartburn can be entirely avoided but there is a certain transparency and fairness that are built into the team-driven culture.



Does it boil down to who you employ?

You are right, organisations that operate this way will attract only a certain kind of individual – people who are self-driven, can cooperate in teams and do not feel any great need to boss over others. And the people in these organisations will carefully screen applicants to see if they fit in with the culture of the organisation.

Where and how would you find such talent?

There are many firms that operate this way. Law firms, consulting firms, many financial companies and high-tech start-ups have some of the ingredients of the team-driven culture although they may differ in the extent of hierarchy they have. And, as we all know, these are among the big recruiters in the placement season.

You have described the examples of a corporation and an academic institution (IIM-A) running on participative management principles. How about a political party?

There is more democracy within many political parties than is commonly supposed. It may well be that the final call in the most important matters is taken by the supremo, but most leaders do seek inputs from many within the party before taking a decision. Not because they believe in the principle of inner-party democracy but out of enlightened self-interest – they understand that it's the people below who have their finger on the pulse of the electorate. There are messages radiating upwards all the time from the rank-and-file. People at the top know that it makes sense to monitor and respond to these messages. This may well explain the change in the BJP's stance on the amendment to the law on land acquisition. Even within, say, the Communist Party in China, there is enormous amount of internal debate and plenty of room for dissenting views.

Would the bossless model work better for start-ups, with just 10 to 12 employees, rather than for a corporation?

No, it's not as if the model works only for very small firms. As I emphasise in the book, the trick for a large company is to operate through reasonably small business units. In the book, I quote Ricardo Semler as saying that 150 employees might be optimal for a business unit.

Does a democratic workplace need to start life as one? Can a company with a hierarchical model shift to this approach?

There are instances of companies with the traditional hierarchical model moving to a more decentralised way of functioning. Not all of them may be able to make a transition to the "bossless" model I describe, but they may be able to include many features of the model and benefit a great deal from doing so. It's not impossible for companies with the traditional model to make the transition. Only, it won't happen most of the time because it doesn't suit people at the top to make the transition. One is wise not to underestimate the power of vested interest in a corporation. ◆

two women with shopkeeping experience, and a young man who was the pharmacist. They all disliked the irregular working hours which came in the way of their social lives.

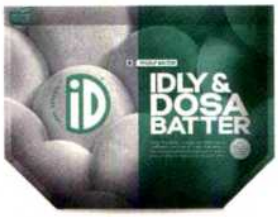
With their newly found freedom to take decisions, they rescheduled the hours amongst themselves so that each was left with some leisure time. The medicine boxes had been arranged at the pharmacy in alphabetical order. This required the employees to often climb tall ladders. The employees decided it made more sense to arrange them according to how frequently they were taken down. Then, they bought an inexpensive computer to keep track of stock. They started taking inventory at night and on holidays when customers were few. They started ordering supplies themselves in order to maximise profits. They also proposed that the pharmacy stock a number of items such as swabs, bandages and shampoo, which weren't normally stocked by hospital pharmacies. Finally, the employees ended up proposing a profit-sharing plan. The doctor-owner was amazed at the change in the small pharmacy. He became a convert to Semco's philosophy. Perhaps, not every single thing that Semco does can be replicated by a multi-billion-dollar company with a large complement of relatively low-skilled workers and where the CEOs keep changing. But the broad message of Semco's success is hard to ignore: Workplace democracy is not incompatible with financial performance. ◆

A Million Idlis a Day

How a guy who failed his sixth grade went on to build a ₹62-crore food company. By VENKATESHA BABU

"THIS IS AS MUCH A LOGISTICS BUSINESS AS IT IS A FOOD BUSINESS. ONE REASON OUR ATTEMPT TO CRACK THE CHENNAI MARKET FAILED WAS THE POOR QUALITY OF REFRIGERATION"

P.C. MUSTAFA, founder, ID Special Foods



While growing up in an illiterate farmer's family in a remote part of Wayanad, Kerala, P.C. Mustafa did not have a lot of expectations. "I grew up in a remote village. There was lack of basic facilities. I was poor in studies and failed in Class VI." This was just the shock he needed. As the reality of having to work on a farm if he did not study struck him, he decided to take another shot at educating himself. This time, he succeeded, and a few years later managed to join an engineering course at National Institute of Technology, Calicut. His first job was with Motorola in Bangalore. After some time, the company deputed him to the UK on a long-term project. "Maybe it's my background, or whatever, I couldn't live on a diet of potatoes there," he says.

Homesick, he decided to look for a way out. "I decided to go to the hometown of all Malayalis, the Gulf," he says. He joined Citibank's technology department where he worked for seven years in several cities in the region, including Riyadh and Dubai. Still, his heart was fixated on India, as he wanted to spend time with his parents. Another ambition was pursuing higher studies.

After returning to India, Mustafa pursued the executive MBA programme at Indian Institute of Management, Bangalore. It was during this course that he decided to take a plunge into entrepreneurship. Mustafa's cousins – Sanshudeen T.K., Abdul Nazer, Jafar T.K. and Noushad T.A. – ran a *kirana* shop in Thipassandra, a Bangalore suburb. "I would sit in the shop on weekends and holidays. After IIM, I could have got a job anywhere, but I decided to be on my own," says Mustafa. Sitting in the shop Mustafa would notice women buying batter for *idlis* and *dosas*. In spite of the poor quality of the batter and irregular supply, it used to fly off the shelves. This gave him the idea to enter the packaged food business for which he dipped into his ₹14 lakh savings.

Mustafa says a lesser-known secret of retail in South India is the sheer number of *kirana* stores run by Malayalis. And, among sub-communities, the high level of specialisation. So, one community could be running just vegetable shops while another could be focused on bakery products. This helped Mustafa when he started the business with his cousins. "Most of these people have little education and capital. What works for them is hard work. Rents are high, margins thin, but workers usually enjoy the same status as owners. When these stores grow, they have a ready supply of workers, usually friends and relatives. After a time, some workers start their own stores," he says.

The cousins, aware of their humble background, started small. They brought 5,000 kg rice and made 15,000 kg batter, which they distributed as samples. "This is where feedback from our *kirana* customers was crucial. By the end of the experiment, we knew how to make ideal batter."

Mustafa says with advent of nuclear households, Indian women have enormous demands on their time as they juggle job and house

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work. "She wants to be seen as taking care of her family by serving them fresh food. Our aim was to complement her efforts, not compete with her, which is why we will never get into the ready-to-eat segment. Our aim was if the *idli* was fluffy and tasted well, credit should go to her," he says.

In 2008, the cousins rented a 50-square-feet kitchen and a grinder. The batter was delivered on a scooter. Nazer did the grinding while Sanshudeen took care of delivery. And yes, the Malayali *kirana* network did help, at least in the beginning. Mustafa says initially the idea was he would remain just an investor. "I had to take a call. If we wanted to scale up, we had to put organisational structures in place and run operations professionally. That is when I decided to enter the business full time and the company started operating formally," he says.

What set them apart, he says, was quality. They did not add preservatives or additives to the batter and used low-sodium salt and water purified by the reverse osmosis method. "Our product is 100 per cent natural. We do not use chemicals or preservatives. It is just like the home-made product." While the company was informally known as Best Foods Pvt Ltd, copyright issues forced a change to ID Special Foods Pvt Ltd.

Sadananda Maiya, who built and later sold MTR Foods, and who now runs Maiya Foods, which is into spices, ready mixes and ready-to-eat segments, says the fresh food business is risky because of the short shelf life of the products and the problem of logistics. "It is hard to crack," he says. ID, however, seems to have done it.

By 2010, the brothers were selling 2,000 kg batter a day. The annual revenue had touched ₹4 crore. The company employed 40 people, though distribution was limited to Bangalore. At this stage, attempts to expand to Chennai failed. "We learnt several lessons. First, this is as much a logistics business due to the product's short shelf life as it is a food business. One reason our attempt to crack the Chennai market failed was the poor quality of refrigeration and air-conditioning facilities." Attempt to diversify by getting into snacks such as rose cookies and diamond cuts didn't take off either due to lack of value proposition and product differentiation. Here, the company did not stick to its core strength – making products with a short shelf life.

Other challenges also kept cropping up. One was wastage. As it is a daily distribution business, inventory means losses. In the early days, wastage was as high as 25 per cent. "We had to get the ideal mean between ensuring availability and minimising unsold inventory." Mustafa says that is where his IT experience helped. They developed an application to capture data on a real-time basis, cutting wastage to 1.6 per cent. Also, the plan to sell Malabar *parotas*, which have a shelf life of three days, took off. Today, apart from 50,000 kg batter, the company sells 40,000 *chapatis*, two lakh *parotas* and 2,000 packets (200 gm each) of tomato and coriander *chutney* in a day. *Parotas* accounted for 40 per cent of ID's ₹62-crore revenue in 2014/15.

QUICK FACTS

INCORPORATED: 2010

FOUNDER: P.C. Mustafa

BUSINESS: Ready-to-cook packaged food

EMPLOYEES: 650

REVENUE: ₹62 crore in 2014/15

FUNDING: ₹35 crore, from Helion Ventures

TARGET: To expand to 30 cities in six years from eight cities at present

ID today sells in eight cities – Bangalore, Mysore, Mangalore, Chennai, Mumbai, Hyderabad, Pune and Sharjah. A total of 200 Tata Ace delivery vehicles go around the seven cities in India. ID now employs 650 people, touching more than 10,000 stores a day. Mustafa says the company has been profitable from day one and the amount of batter it sells in one day can make a million idlis.

Most of the expansion has been done by ploughing back profits. They could have borrowed to grow faster, but Mustafa says religious principles forbid them from taking loans. Six months ago, ID raised ₹35 crore from Helion Ventures, a venture capital (VC) fund, to modernise its factories, expand its fleet, and for marketing and R&D. Mustafa says mentoring by people such as management consultant Ashok Dhingra, which was enabled by Helion, is what attracted him to Helion "in spite of being wooed by more than 60 VCs".

In the pipeline are fresh *sambhar*, coconut *chutney* and *dhokla* for the Ahmedabad market. ID plans to be present in 30 cities in the next six years, though Mustafa says it will not get into ready-mix spices or categories where there are large players unless they can ensure differentiation.

Harish Bijoor, who runs an eponymous management consultancy, says scaling up the fresh food business is not easy. "Unlike batter, which is a fairly standard product, succeeding in other daily food categories may be harder due to regional variations in taste," he says.

But a gung-ho Mustafa says with a smile: "For a guy who failed his sixth standard, I don't think I have done badly by selling batter." ◆

@venkateshababu

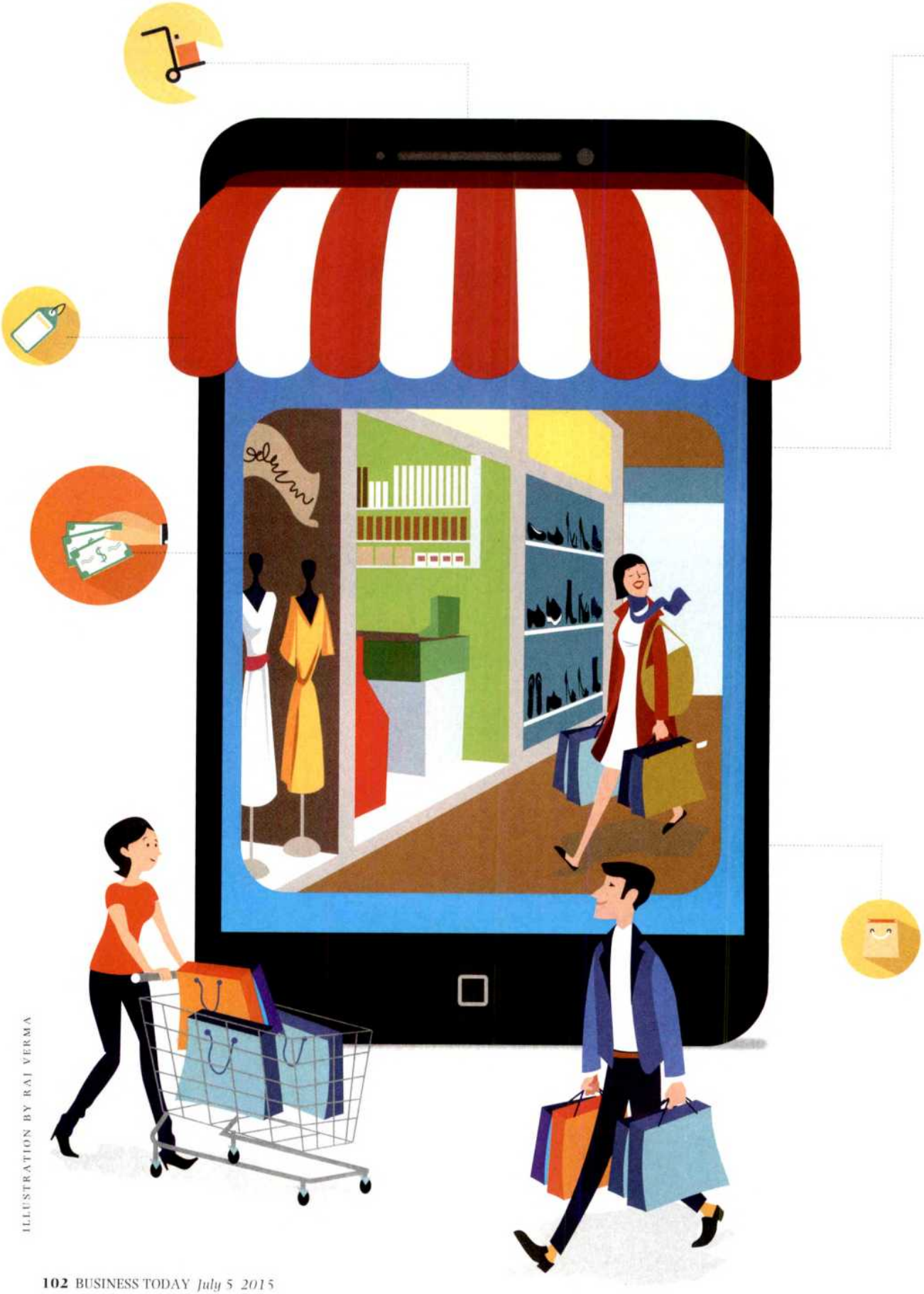

ILLUSTRATION BY RAI VERMA

Shop on the Go

Mobile shopping apps are the new fad. We compare the apps of leading e-commerce portals in India. By NIDHI SINGAL

The Times They Are a-Changin," crooned Bob Dylan several moons ago. It rings true for e-commerce shopping companies in India today. Indeed, even as online shopping is catching on in India, most leading portals in India are already migrating towards apps. Consider this. Myntra has already shut down its website. Flipkart has folded up its mobile site, which forces customers to rely on the mobile app for browsing or even purchasing anything on the move. And while Jabong, Amazon and Snapdeal have not yet followed Myntra and become app-only e-commerce portals, they are offering special discounts to customers for installing their app on smartphones and tablets.

An app on your smartphone is undoubtedly convenient but it has its downsides too. First, price comparison isn't easy. Also, the convenience of looking at different products in multiple tabs isn't there anymore -- you will have to look at one product at a time. And the details you get with a bigger display on your laptop's 13-inch screen can't be matched on a smartphone's 5.5-inch. But these portals are constantly releasing regular updates for their apps to enhance the shopping experience.

We have closely analysed the apps of the top five popular shopping portals in India. While three are comprehensive shopping e-commerce portals -- Amazon, Flipkart and Snapdeal -- offering almost anything from home appliances and books to apparels and footwear, we also checked out the two most popular fashion brands, Myntra and Jabong.

App Availability & Size:

All these five apps are available for download on Apple App Store, Google Play Store and Windows

Phone, too. All you need to do is search the name of the app to instantly download it. These apps would consume anywhere between 15 and 30MB of space on your device. For instance, the Amazon India Shopping app occupied 27.33MB storage on a OnePlus One smartphone while Flipkart and Snapdeal apps took up 22.80MB and 14.96MB space, respectively.

The app size varies from smartphone to smartphone. But as you browse the app, more data get stored in its cache memory. You can remove the data by either clearing it or by running Clean Master app that clears all the junk files stored in these apps. These apps ask you for access to a lot of information on your phone. In most cases, it asks for identity (find accounts on the device), contacts, photographs, device ID and call information, network access, device and app history. Some of these apps even store your credit card/debit card or bank details for quick checkout.

Shopping Experience:

You can easily browse any of these apps for the products you are looking for, but it is always convenient to sign in first. It will allow you to easily add products to the wish list or even to the cart. Also, over time, these portals seem to have improved the user interface of the apps, too. Images used to take a lot of time to load but it is a quick process now.

Amazon India Shopping:

When launched for the first time, it asks you to login. You can even skip this step. The landing page of the app is very similar to the Amazon.in home page. There are deals, followed by exclusives on Amazon.in, best sellers and deals of the day. There is also a menu option at the top that can take you to the recently viewed items or allows you to shop by department, check wish list, order, access recommendations, contact Amazon and much more. All this is accessible with a single click, which makes navigation really simple.

You can also use the search bar when looking for a product. While searching for any product, the results popped up instantly, without any lag on a 2G connection as well. Filters, too, work in real time. Images are not too heavy and you can switch between list view and grid view. But when a product is selected, it takes close to 15-20 seconds to load the details. Overall, the shopping experience on Amazon app is pleasant. You can add items in the cart and proceed to checkout. But it is always recommended to read reviews about the product as well as the seller – in some cases the seller has not been found to dispatch the order. You have an option to choose between free standard delivery (for orders over ₹499), guaranteed two-day delivery for ₹49 or guaranteed one-day delivery by paying ₹99 extra.

Flipkart:

When launched on the same network connection, the Flipkart app took considerably longer time to load. It first asked us to login. When we skipped it, it took over a minute to load the home page but the lag disappeared after the device was connected to a high-speed Wi-Fi connection. The interface is no different from the web page. The landing page of the app is divided into multiple rows, showing the latest products that are available for purchase followed by amazing offers, deals of the day, just launched, go to offer zone and shop by department. At the bottom is app-only offers. One good thing about the Flipkart app is the quick tutorial that pops up when using the app for the first time. The arrows suggest how to choose filters, swipe or where to tap to change the product view. While searching for a product, the filter doesn't seem to work well. For instance, when we were searching for the cover for OnePlus One smartphone, it continued to show us the options for Apple iPhone 6, Micro-max smartphones, etc.

While browsing the app, a box appears on the page that instantly switches to the grid mode from the list view and vice versa. With Flipkart too, you should be careful about the seller. Also, on the small screen, you might miss the delivery cost mentioned below the price, along with the delivery time-frame. Flipkart, too, has an option of delivery in a day – you can choose it by paying a little extra.

Snapdeal Online Shopping India:

The company has kept it simple with the app. On the top is the search bar along with a basic option menu, exclusive offers and deals of the day. This is followed by a list of categories such as electronics, fashion and lifestyle and home needs. The app works quickly on 2G data connectivity as well, but it takes some time to load the images. Browsing within the app seems to be easy as under every category Snapdeal has listed top brands, quick links and even top sellers to enhance the shopping experience. The filters work well, better than Flipkart.

On selecting a product, you can view the delivery option if any. You can view the rating for the standard delivery by the seller, followed by a view of other sellers and key features. Once selected, you can continue to make the payment using the standard payment options. Most of the

products listed on Amazon and Flipkart are available on Snapdeal as well. Tracking the order or viewing shortlisted products is simple by hitting the option menu on the top left.

There is also a percentage sign on the top that takes you directly to the discounted offers. But under daily deals, the prices are not listed along with the products in the grid view. You will have to actually click on the product to check the price. This is slightly cumbersome as every time you will have to wait for the app to load the product just to check the price. More so, when products on discount are limited and go out of stock quickly.

Jabong - Online Fashion Shopping:

The Jabong shopping app is considerably slower than the competition. If you are on a slow data connection, then it will take ages to load. The interface is neat and simple with the top row reserved for the menu, a small icon that directs the traffic to search, shopping cart and other icons that help track the order or check the wish list. This is followed by various categories, including women, men, kids, home fashion, designers, top brands and recommended for you. Selecting a category further directs you to a new page where you can further select between various options such as new in, clothing, shoes, bags, accessories, etc. You can further narrow the search using filters. Surprisingly, even though the app is slow, the filters work smoothly.

One cool feature on Jabong is the "shop the look" option that takes you to a new page altogether within the app featuring all the dress, bags and accessories the model in the image is wearing. The best offer price appears in the same window, showing the discount you can avail. Tracking the order within the app is easy.

Myntra-Fashion Shopping App:

This is a heavy app and takes some time to load. The home-screen is dominated by the offers only, segregated into different heads. There are offers by brand and by discount percentage, too. If you need to look for a product, it is better to use the search tab on the top. You can look for products by selecting the gender (man, woman) or kids. It subsequently shows the options from Indian wear, western wear, accessories, etc., and is further divided into sub-categories.

However, this isn't the same interface during big weekend sales as there is huge traffic on the app. During such sales, you are not able to browse through the menu, hence, the search option works the best. Unlike the website, filters over the app work smoothly. Only the valid options appear in the filters and you can search using brands and even price. But whenever we tried to change the filters to price (high to low or low to high), it usually took a lot of time to reload the options. When a product is selected, the option "tap to get the best price" appears. You can add it to the wish list or to the cart. It is advisable to add products to the wish list and then select and shop later as it is more convenient to compare products and looks. The images do enlarge, giving you a closer look of the garments and accessories. Once the order is placed, all the tracking can be done within the app. You can even arrange a return or exchange with a simple tap.

The experience of shopping on the app isn't bad but we still preferred the Myntra website.

For making payments to all these apps, all the modes are available, including debit card, credit card, net banking and cash on delivery – you can easily complete the transaction. If, while making the payment, a transaction gets cancelled, you might have to contact the customer care of the shopping site or your bank to figure out where the amount is. At times, the money is deducted from the bank and the shopping site does not receive it. It is with the payment gateway and it takes time to get it released.

There is a dedicated option to track the order. It is updated almost real time and you can actually know what the exact status of the order is. All these websites also offer instant message notification when the order is dispatched and is out for delivery.

In most cases, you can cancel the order even when it has been dispatched. If you are not happy with the order you have received, you can request for the return through the app. It works flawlessly with most of these apps. Indeed, unlike offline retail, returning goods to the e-commerce portals is very simple. Someone will come to collect it from the address provided after receiving a request for return. The order is inspected and if everything is fine, a refund is initiated either in the form of store credit or the amount is returned to the bank account.

Although most e-commerce players are betting heavily on apps, it may be a while before shoppers switch completely to apps. Until then, desktop and mobile sites will remain the preferred mode for online shopping. ◆

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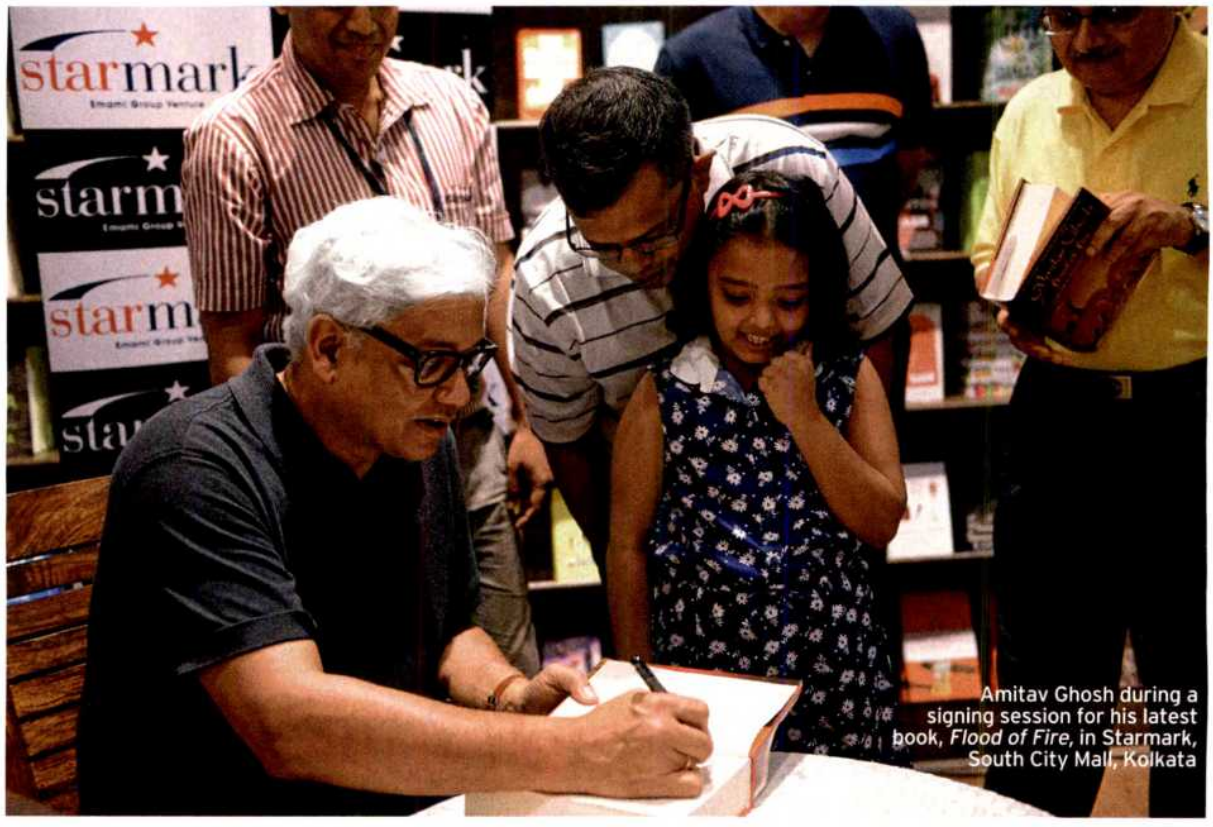


SUBIR HALDER

Amitav Ghosh during a signing session for his latest book, *Flood of Fire*, in Starmark, South City Mall, Kolkata

Advance Bookings!

Publishers discover the virtues of preorder marketing. By CHITRA NARAYANAN

It's amazing what a bit of clever marketing can do. It can put books that are not yet released right on top of the bestseller charts. Harper Lee's *Go Set a Watchman*, due to hit bookstores only on July 15, is breaking all records in preorder sales in the US as its publisher HarperCollins and distributors entice readers to book their copies early. While the publisher refused to disclose the numbers, it shared that it was the most preordered book in HarperCollins' history. Lee's *To Kill a Mockingbird*, published 55 years ago, sold 40 million copies, and the publisher has managed to create enough buzz about the book to jog along the preorders for the sequel.

Closer home, the Shiva trilogy author Amish's [Tripathi] forthcoming book *Scion of Ikshvaku* set to launch on June 22 is flying off Amazon's virtual book store. "The new book from Amish is well on its way to becoming one of the largest preordered book on Amazon.in and arguably one of the largest in the country," says Samir Kumar, Director, Category Management, Amazon India.

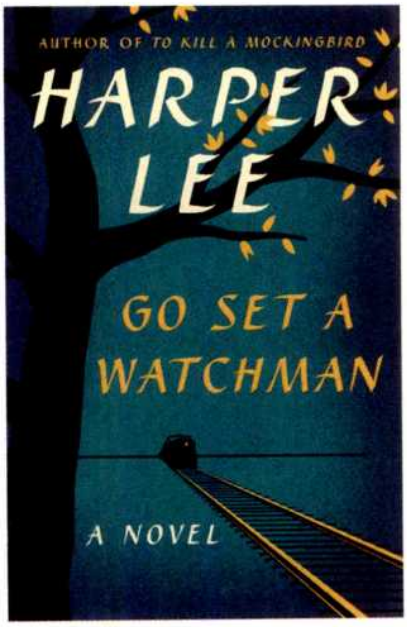
Preorder sales are emerging as the new best practice in the marketing of books. Just look at the kind of things Westland and Amazon are doing to jog along the preorders of *Scion of Ikshvaku*. With an author advance of ₹5 crore forked out to Amish by Westland, a lot is riding on the book for the publisher. So along with Amazon, with whom it has an exclusive deal for the book (Amazon will be the sole online retailer for the first two months post-launch), it has done cover launch contests, Google hangouts with the author, special chapter readings, and even heavy promotion during the Indian Premier League.

Or, take the preorder campaign that Penguin Random House did with author Karan Bajaj, whose new book *The Seeker* is out this month (June). It created a 'gold rush' marketing blitz over May 11 to 13. Says Caroline Newbury, Vice President, Marketing and Corporate Communications, Penguin Random House: "Anyone who preordered the book within this timescale was offered the opportunity to receive a whole host of special offers and discounts from Karan – some exclusive ebook downloads, vouchers for Himalayan Holidays and even a chance to

come to the Delhi book launch."

Booksellers are taking a leaf out of movie makers' marketing handbook and trying to create a first day, first show kind of excitement for books. Just as the bulk of a movie's collections are in the first week, booksellers are trying to cash in early in the game.

The concept of preorders have always been around, but why it is working so well now is that this is the age of instant gratification where people don't want to wait to lay their hands on anything new. Remember the long queues at book stores when the last book in the Harry Potter series released. Also working in the publishers' favour is the race among social networkers to show off that they have got a much talked about book on day one. Take Amitav Ghosh's *Flood of Fire*. On May 28, the day it launched, Twitter was full of posts of people displaying their preordered package of the book.



To Kill a Mockingbird **sold 40 million copies. Fifty-five years later, *Go Set a Watchman*, the most awaited sequel to the book, is being launched. Although publisher HarperCollins is being coy about sales forecasts, it is already setting records as the most preordered book**

Pen Pushers

Of course, new launches from authors like Amitav Ghosh and Amish can get readers excited enough to book a copy in advance but publishers say preorders are working across board – even for relatively unknown authors. Says Newbury: "Preorders tend to be most successful when the book already has a degree of buzz about it and is much-awaited." But, she says, it can also work for first-time authors if they already have a good fan base.

Agrees Sameer Mahale, Head of Sales, HarperCollins: "We are seeing much better preorders for young and tech savvy authors who promote their books aggressively."

Yogesh Sharma, Vice President – Sales and Marketing, Bloomsbury, says the publishing house is using preorder campaigns effectively to promote all sorts of books. "Driving web traffic towards the preorder links plays an important role, especially for the unknown authors. Increasingly, we do it across the board as the necessary information is available well before the preorder timelines kick in."

Amazon's Kumar says: "For books that may have got released internationally ahead of India and have seen good reviews, we have seen decent preorders (100-plus) in India, even for the relatively less known authors in India. This typically happens for business books, biographies and other non-fiction books. *Elon Musk* – currently on preorder – is one such case. We have seen this for *Zero to One* by Random House, too." In case of Indian authors, he says, some authors like Bhavana Arora and Jas Anand have used the preorder platform for promotions in the preorder period itself and we have seen 1,000-plus early bookings on their books.

How long before launch do the preorders begin? Westland CEO Gautam Padmanabhan feels ideally it should be a short window – not more than two months pre-launch. Amazon's Kumar feels the ideal time frame is four weeks before the release of the book, but he says for super lead titles it is extended. For instance, preorders have begun for Vikram Seth's new book, *Summer Requiem* releasing in October, and *Diary of a Wimpy Kid 10* releasing in November.

Apart from giving a nice push to sales, can preorders also help publishers manage their print runs and inventory better? Analytics can throw up things, like which cities are generating more orders, so that distribution can be more efficient. But it does not affect the first print run much, says Sharma of Bloomsbury. "Print runs are generally already decided before books are put on preorder.

Iti Khurana, Assistant Manager, Marketing, HarperCollins, however, says that for books like *The Heat and Dust Project*, *The Topper Prepares* and *Mumbai Avengers*, preorders were better than expected, and the publisher did change strategy, re-routing orders to digital channels.

Going Offline

Preorders are no longer an online only phenomenon. Smart book stores are now booking orders early as well. Padmanabhan of Westland describes how Crossword, Landmark and Starmark in Kolkata, and Sapna in Bangalore have started taking preorders. Anurima Roy, Senior Manager, Marketing and Publicity, Bloomsbury, says offline retail cannot work in the same way as online does, but it does special deals for big books. "There were some really good deals we did with *And the Mountains Echoed* by Khaled Hosseini. Also, there is a lot of traction offline still because retailers have display space for POS [point of sale] material/announcements that publishers display, informing them about what is coming out next."

Publishing is a tough business to be in, as there are more duds than hits. But booksellers are writing a whole new marketing script to create more bestsellers. ◆

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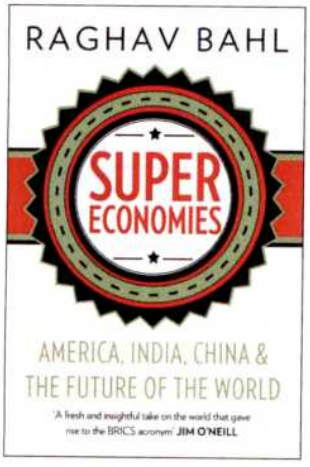
"Age of supereconomies is different from that of superpowers"

Media entrepreneur **Raghav Bahl** talks about his new book *Super Economies* and how India and the US should deal with China's growing influence, in this interview with **Rajeev Dubey**



Super Economies: America, India, China & The Future of the World

By Raghav Bahl

PAGES: 416

PRICE: ₹699

Penguin India

What are supereconomies? How did the book come about?

My earlier book was *Super Power*, which was a direct China and India comparison. When I was looking at the next book to do, I realised that that was a limited comparison between the two countries. The way I expect the 21st century to work out is three to four very dominant countries. That is where the concept of supereconomies comes in. Clearly, India, America and China will be the three dominant ones. Brazil is in the game but it is proving itself to be not a very innovative economy. And it's a bit far away from the world's geographical centre, which is Asia. So, it will be the age of supereconomies and not superpowers.

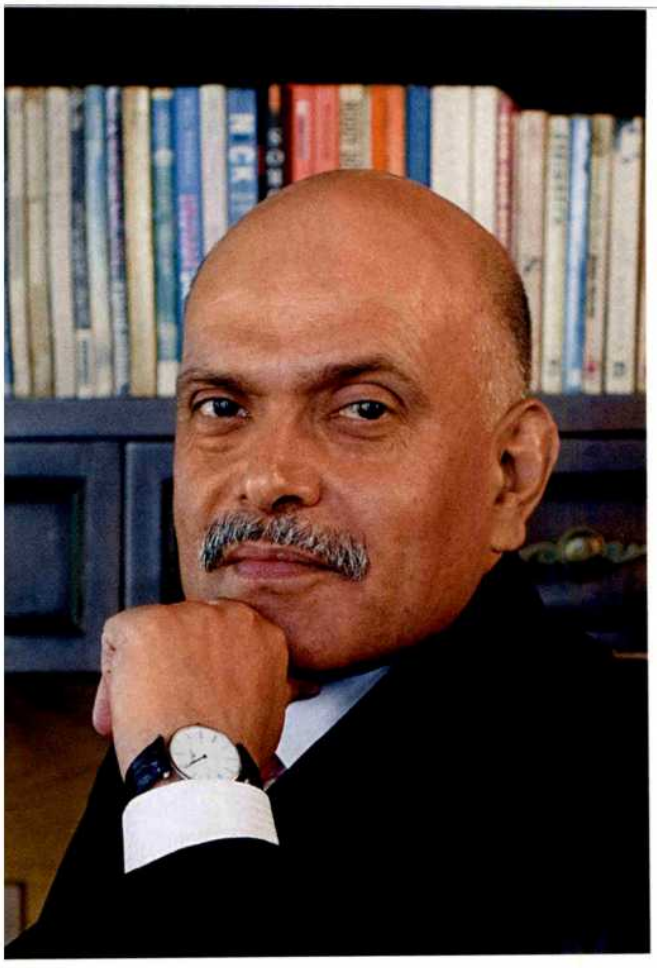
A supereconomy is an economy which is about 15 per cent of the global GDP. Currently, America and China are between 16 and 18 per cent of the global GDP. India is about eight per cent but is the fastest-growing. If you extrapolate over the next two or three decades, India will hit 13 to 14 per cent of the global GDP. Then, India will be the largest, most populous country in the world. If you look at the land mass, of course, there are larger countries but they are sparsely populated. In demographics, India and America will be two of the youngest and fastest-growing countries even in the next 30 to 40 years. Nuclear power – the ability to project military power – also lies with these three countries. When you look at all these factors, it's clear that there will be three dominant supereconomies. Within these three, India and America will inevitably become allies and China will stay out as a frenemy.

The other theme that the book postulates is that the age of supereconomies will be very different from the age of superpowers on two counts: The superpowers' age had well-defined blocs: the Soviet bloc, the Warsaw Pact countries and NATO. And there was no intermingling at all. And all engagement was military engagement. There was no economic engagement, no intellectual engagement.

In the age of supereconomies, it's completely different where, though they would like to project military power, they are so deeply embedded into each other's non-military ecosystems – economies, people-to-people contacts, migratory labour, technology, digitally connected – so this will be the age of competitions and trying to win not military battles but battles of climate, negotiations, trade negotiations – largely economic battles. And influence will come from winning these battles.

Wouldn't China's expansionist mindset come in the way of its economic ambitions?

China is a very smart country. Inscrutable but smart. I think both America and



RUBEN SINGH

India have to give them extra space in the South China Sea. Not total domination, but extra space. They will want to dominate that area. In return, they would like to keep China much closely integrated into other global mechanisms – trade pacts, energy pacts. I see that as inevitable. But I don't think either India or America or even the Western bloc, clearly realises that here is a country that has become very powerful. And unlike the Soviet Union, it isn't isolated. It's very much integrated into the global system and the Chinese are intelligent enough to realise that a lot of their strength is coming from this integration. When somebody grows stronger, you have to cede it more space. If South China Sea is where they want a little bit of domination, the world will have to recognise that.

But what if that "little" domination comes to Indian Ocean and then the Pacific?

That's where the world will have to draw a line. American influence backed by a strong India will be important to ensure that the Indian Ocean area, the southeast Asian communities will effectively have a frenemy relationship with China. My call is that this will not deteriorate into war only because everyone is too well integrated.

In your view, is Japan only pricking China or is it bracing for a conflict?

It's tough negotiations. It's tough posturing but I don't think anyone is going to take it to war unless you start getting a bit irrational about it and say you want to confine China.

Should India trade-off China's influence in South China Sea for a permanent place in the Security Council?

It cannot be a capitulation because India also has a lot of interests in the far east, including Japan, Singapore, Vietnam. So, I don't think India can capitulate which will also mean the Americans getting unhappy. So, it has to be a graded play where India will have to continuously send a signal that we understand that you have legitimate interests just as we have legitimate interests in South Asia and Indian Ocean. All of this is not going to happen in a day. It will happen over 10 to 20 years and a lot will depend on how we manage our economy. If we can become 12 to 13 per cent of the global GDP then we are in a very different space from a country which is seven to eight per cent of the global GDP right now. That, with the Western world's obvious affinity towards India will give us a much greater bargaining position. It will be a matter of time that we will get Security Council position. But if you try and confine China too much then you are showing it a red card. Ten to 20 years from now China will want Taiwan integrated. India will have to settle the border issue with China.

"The first thing is for India to recover its economic mojo and create a much stronger alliance with America"

And we must. It requires a person with political capital. [Prime Minister Narendra] Modi has begun that process. He is virtually saying let's talk, let's not become inflexible about it. But I believe the Chinese response was "*Abhi nahin*" (not now). But those things will change as India becomes stronger. Currently, we are coming out of a long period of weakness. The first thing is for India to recover its economic mojo and create a much stronger alliance with America. Both these things are beginning to happen. I certainly don't belong to the camp that says that Modi has done nothing. I think he has put a lot of building blocks in place in the first year. These things don't turn around in a

year. You will start seeing the results in the next year, two years.

How far do you reckon India is from sitting in the Security Council as a permanent member?

We should be able to get that done in about a decade. China will play the spoiler for a long time. Russia will play a sort of duplicitous game because it will try to renew its influence in India which it's losing at a very rapid clip. India will have to get support from the Saudis, the Iranians, not just the American bloc. Chabahar is one way. India coming back into the mainstream is another. India has to renew its contacts with the Middle East, which fell out of the window when we became weak. Russia will begin to become a much weaker country in the next 10 years.

American economy is recovering its strength. American innovation is reasserting itself. American corporations are becoming more powerful. All of this will feed into a more assertive American position. If India can also start pulling its weight in this part of the world, then that's a force multiplier.

How much of a give-and-take can India do with China on the border? Arunachal, of course. India will not give up...at best we could give up Aksai Chin and say let's settle this.

We could probably give a bit of Arunachal, too. First is the conceding of the principle that we have to do a give and take. That it's cannot be one party take all. Then it's a question of working out the nitty gritties. You will have to give a part of Aksai Chin. You will have to give some parts of Arunachal as well. How it is packaged and how it is spoken of those are technical details.

What will you get in return?

You will get peace on your border. You will get much stronger Chinese engagement with India, which works very well for India and gives us a greater bargaining power with the West. It never works like that and India will like to position it as a victory and they will like to position it as a victory. But the fact is you will have to give territory to them. You can then bargain a part of PoK [Pakistan-occupied Kashmir] from them and then dress up and package the negotiations as a great moral victory. They are in a position to do that. You have to swing the Chinese relationship to a largely economic relationship, rather than a military relationship. The real trade-off will be to improve the balance of trade by getting access to the Chinese economy. Making India more neutral towards the Chinese is very good for us to become a more assertive partner with the US, rather than being a dependent partner.

Why did we become irrelevant in the world? India's voice was heard in the 70s and 80s. It's in the 90s that we got wiped out of diplomacy in the world. In the 90s India had become so weak economically. We got trapped in our own economic crisis (which was) so severe. And then we didn't even repair our economy as fast as we could have. We did a large amount of trade and investment liberalisation. But the Manmohan Singh, Narasimha Rao package was trade and investment liberalisation. Vajpayee did quite a bit of structural change but the UPA came and a lot of change was held back. ◆

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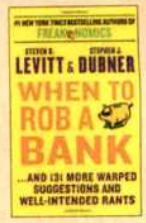
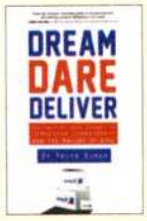
When to Rob a Bank

THE FORTNIGHTLY PICK



By Steven D. Levitt, Stephen J. Dubner
Penguin UK; Price: ₹625
This book answers seemingly inconsequential (and often quirky) questions with interesting insights into economics, human behaviour.

BUSINESS BESTSELLERS*



Dream, Dare, Deliver
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Embassy Books
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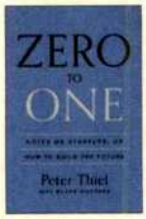

Zero to One
By Peter Thiel
Random House
Price: ₹499

Dream with Your Eyes Open
By Ronnie Screwvala
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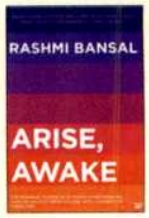

Arise, Awake
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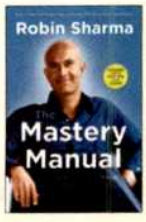

The Mastery Manual
By Robin Sharma
Jaico Publishing House
Price: ₹199

*Top books by sales for May 24-June 6, 2015; Includes only books released after April 1, 2014; Information provided by amazon.in

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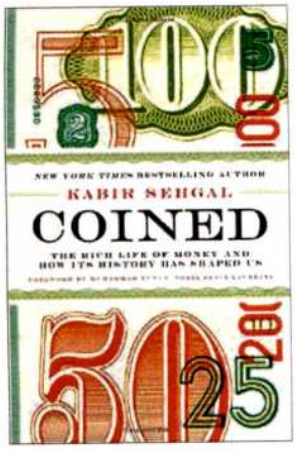
A Symbol of Value

An open book that looks at money in dimensions and from approaches hitherto unexplored by mainstream economic thinking. By K. KANAGASABAPATHY



Coined: The Rich Life of Money and How Its History Has Shaped Us

By Kabir Sehgal

PAGES: 317

PRICE: ₹499

John Murray (Publisher)

Kabir Sehgal, a *New York Times* bestselling author, is a multifaceted personality. On his official website, he proclaims himself to be an eduTech Entrepreneur who is passionate about changing abstract ideas into reality so that he could impact the lives of everyone in a positive way. His new book, *Coined*, has amply demonstrated this, though occasionally one feels that he is also moving from reality to abstraction for good. Carrying a title that is conventional, the exploration of the subject is anything but conventional.

As an investment banker confronting the 2008 financial crisis, Sehgal was inspired to intensely research about 'money'. The end result is an intricately woven story about money, looking at it in dimensions and from approaches hitherto unexplored by mainstream economic thinking. Sehgal is humble in claiming the book is not original, but his significant contribution lies in synthesising and widely quoting material from a variety of fields encompassing history, anthropology, biology, religious texts, his own personal interviews and visits across continents, and ultimately linking them into the evolution of money, credit and finance from prehistoric times to the modern globalised world and looking forward... to the interstellar universe.

The book is divided into three parts – *Mind: The Roots of an Idea, Body: The Material Forms of Money* and *Soul: Symbol of Values*. Starting from the premise that money, defined in traditional way as a unit of account, medium of exchange and store of value, does not capture its other dimensions, he ventures to define money as a symbol of value. In *Mind*, he ventures to answer why people use money from perspectives of biology, psychology and anthropology. There is a fascinating analysis in Chapter 2 of psychology and neuroscience of financial decision making. It raises doubts and brings out the obvious failure of economic models and forecasting exercises rooted in the conventional assumptions of rational decision making and self-correcting nature of financial markets.

Body is a description of what different forms of money are, surveying briefly the history of hard money and later the soft money or paper currency standards in two different chapters. There is an interesting discussion on the evolution of central banking and its control over money. Chapter 6 speculates about the future of money in three possible scenarios, a bear case or a pessimistic case of economic deterioration, a bull case of optimistic economic expansion and a dream case of distinction between man and machine getting blurred.

Soul is out of the world and belongs to the realms of religion and spirituality. How religions such as Christianity, Islam, Buddhism and Hinduism view money? There is surprisingly a common thread with some degree of variation among all religions that money is some form of an evil that distances the soul from God. The dividing line between the materialistic and spiritual view of money is that while the former is rooted in the belief that more is better, the latter is a reflection of conviction that less is more and nothing is everything. The last chapter on the art of money explores how illustrations and symbols in coins and other forms of money are reflective of national cultures and history.

Overall, *Coined* is an open book as it does not advocate any theory nor it preach anything as right or wrong. It is to each according to their perception and absorption. But it is a stimulating read for all enthusiastic non-fiction readers. ◆

The reviewer is former director, EPW Research Foundation , and former adviser, RBI

Coined does not advocate any theory nor does it preach anything as right or wrong. It is to each according to their perception and absorption...

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Head - Finance
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Description: Should have 3-5 years experience in sales/marketing, Should be conversant with computer, emails, Power Point Presentations.

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Orissa Doot Private Limited
Accounts Executive
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Job ID: 16939947
Description: Must have atleast 1 year experience in Accounting.

Capgemini Business Services India Limited
GL/RTR
Location: Bengaluru / Bangalore
Job ID: 16980471
Description: Should have good experience into General Ledger process (Balance Sheet reconciliations, validating journals, performing month end activities, Fixed Assets, Inter Company).

eClerx Services Private Limited
Financial Analyst
Location: Mumbai City, Navi Mumbai, Thane, Pune
Job ID: 16984044
Description: Cataloging (categorizing) contracts and deals of derivative trades of our clients, Capturing data from client systems and online faxes to our system.

Futures Ahead
Dy. Chief Manager - Payouts - Life Insurance
Location: Mumbai
Job ID: 16985769
Description: CA with minimum experience of 3-4 years. Preferably experience of Insurance or any Financial Institution.

Syntel Limited
Officer/ Associate - Finance
Location: Pune
Job ID: 16983859
Description: Booking a Trade on behalf of the Client Investment bank and initiate relevant documentation and online processes.

Cynosure Corporate Solutions
Chief Accountant
Location: Madurai
Job ID: 16982686
Description: Responsible for Sales tax, income tax, serves tax, tally , erp, balance sheet, trail balance, etc.

Minacs Limited
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VIVAN MEHRA

Pawan Munjal
Chairman, Hero MotoCorp

Big Shoes to Fill

PAWAN MUNJAL, who took over as Chairman, MD and CEO of Hero MotoCorp, has big shoes to fill. He is taking over from Brijmohan Lall Munjal, who, as the Chairman since 1984, turned the company, which was formed as a JV between Hero Cycles and Honda Motor, into the world's largest two-wheeler maker. Munjal inherits a company which has robust financials and strong brand equity. Things, however, are getting challenging. The competition is getting tougher, and the shelf life of technology is getting shorter. An engineer by education and a golfer by passion, Munjal would need to borrow a bit from both to make his and his company's stay at the top both cherishing as well as long-lasting.

DIPAK MONDAL

Amit Jain
President, Uber India

Ride Along

US-based taxi app company Uber has, for the first time, appointed a country head. **AMIT JAIN**, the former president of Rent.com, took over as the head of Uber India recently. The company typically only operates through city leads. Jain's appointment comes at a tricky time for Uber, with the Delhi government rejecting the licence applications of cab aggregators. The company says it is continuing a dialogue with both the Centre and state governments.

GOUTAM DAS

P.K. Sinha
Cabinet Secretary

Step Up

Known for his performance-oriented approach and a favourite of many in the PMO, **P.K. SINHA** is now the country's new Cabinet Secretary. Sinha, who has earlier held the roles of power and shipping secretaries, is the senior most IAS officer in the country and will take over from Ajit Seth, who got three extensions from the Narendra Modi government. In his two-year tenure, Sinha will have to steer the government's executive to work as a cohesive unit.

ANILESH S. MAHAJAN

Vijai Sharma (L)/ K.V. Chowdary
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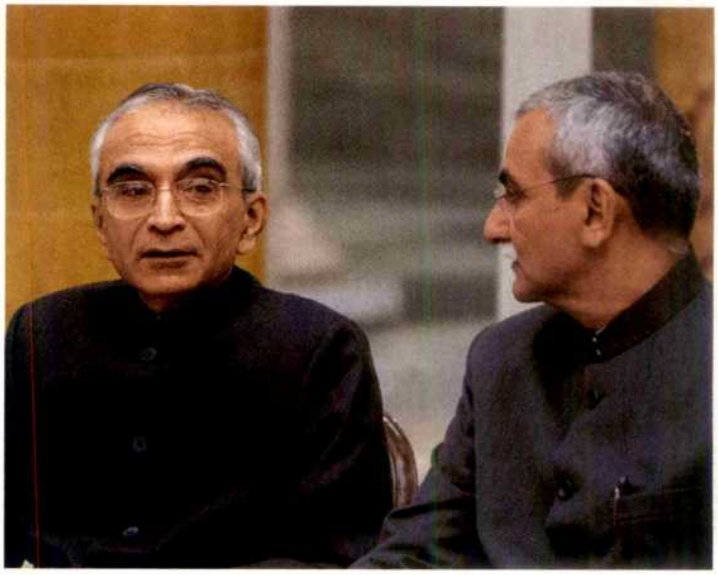
Central Vigilance Commissioner

New Faces

VIJAI SHARMA, a retired 1974 batch IAS officer, takes over as the country's new CIC, a post lying vacant since last August. Sharma has the tough task of disbursing some 16,000 appeals and complaints pending, before his tenure ends in December. Meanwhile, **K.V. CHOWDARY**, a 1975 batch IPS officer, is the new CVC despite many opposing his appointment. He has earlier handled investigations against influential people, like Nitin Gadkari and J. Jayalalithaa.

ANILESH S. MAHAJAN



VIKRAM SHARMA

R. Seshasayee (L)/ M.K. Sharma
Non-executive Chairman, Infosys/
Non-executive Chairman, ICICI Bank

Fresh Beginnings

After much speculation, Infosys has finally announced that **RAMASWAMI SESHASAYEE** will be its new Non-executive Chairman. He was earlier an independent director on the company's board since 2011. A Hinduja Group veteran, Seshasayee steered the fortunes of Ashok Leyland for 35 years. Meanwhile, **MAHENDRA KUMAR SHARMA**, former Vice President of Hindustan Unilever, has been appointed as the Non-executive Chairman of ICICI Bank. Sharma's association with ICICI Bank is over a decade old. Both Seshasayee and Sharma succeed K.V. Kamath, who takes over as the President of the BRIC-promoted New Development Bank.

VENKATESHA BABU

See interview with Gautam Padmanabhan at businesstoday.in/westland-padmanabhan

"A big challenge for publishers in India is the dearth of physical book shops"

SHEKHAR GHOSH

Gautam Padmanabhan, CEO of Westland, the fifth-largest English language publisher in India, compares publishing to the film industry when he admits: "I don't think any Indian publisher has really an answer what works and what doesn't." Excerpts from an interview with **Chitra Narayanan**

How many titles do you publish a year?

Currently, 70 to 90 titles but we are trying to bring this down to 30 to 40 in a year because we want to back what we are doing with marketing. If we publish 90 titles then we find the marketing budget gets split across too many titles.

How many of these titles bring in the most revenues?

It's the classic 80:20 principle. Your big titles account for 80 per cent of your revenues.

Do ebooks pose a challenge to traditional publishers?

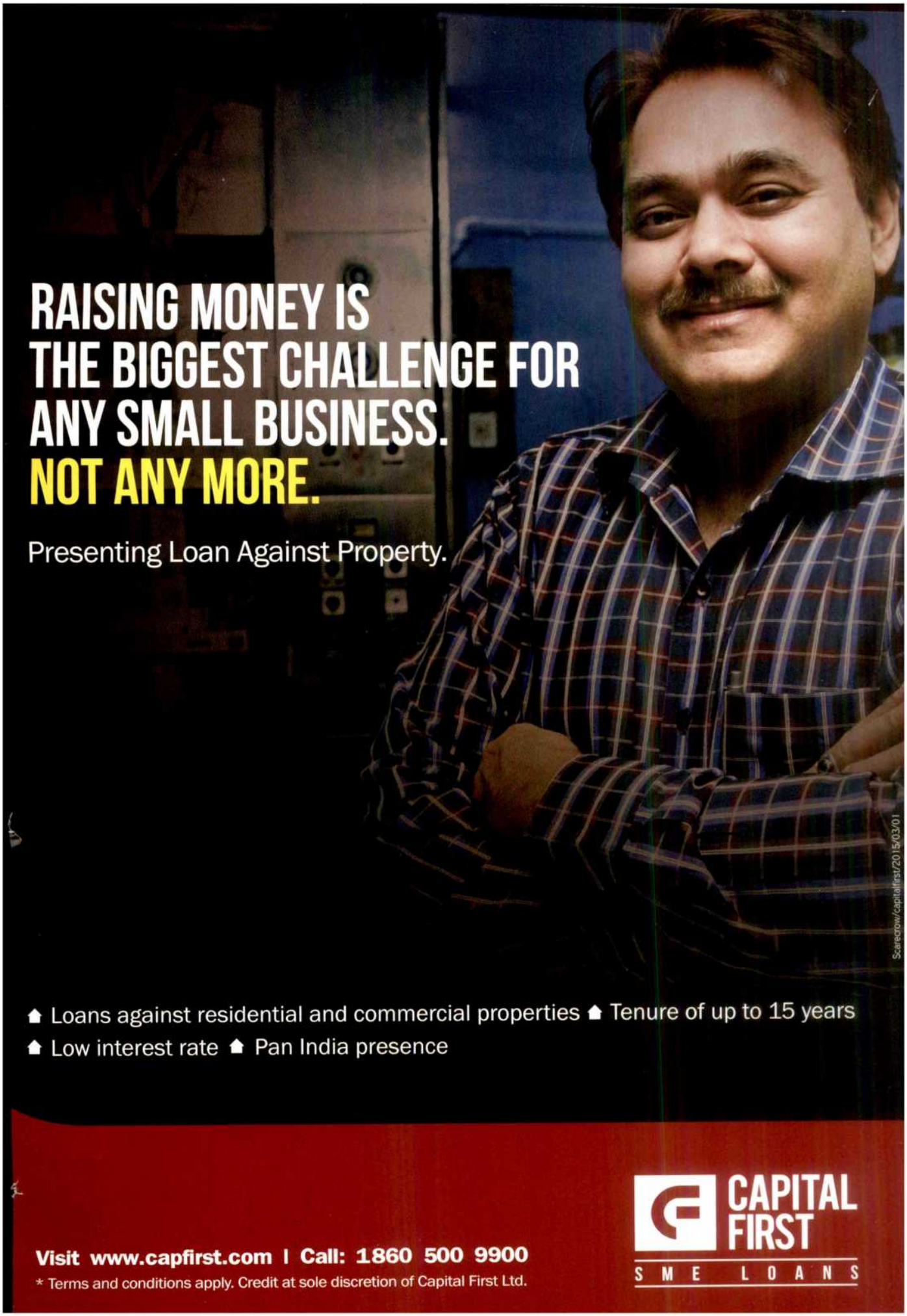
I don't see ebooks and audio books as a challenge at all. If people get hooked on to ebooks, it will actually increase reading and that's good for us. The challenge for us comes from other entertainment – movies, gaming, etc. One of the biggest challenges is the dearth of physical book shops here. In India, even before physical retail could reach the kind of logical heights estimated, the decline started so no city has enough book stores to cater to the market.

What are the economics of ebooks for publishers?

For us there is no inventory cost. We have worked out models where we share the revenues in a better manner with authors. In physical books the royalty is on the MRP (maximum retail price). Here it is on the net receipts. Typically the book industry works on 25 per cent share of net receipts. So if a book is for ₹100, say the retailer gets 40 to 50 per cent discount then 25 per cent share of ₹50 goes to author. It's different in the West where if the hard cover pricing is ₹2,499, the ebook's ₹999. This is why publishers are negotiating with Amazon that they be allowed to fix the ebook's price. In India, there is no differential pricing in the MRP of physical books and ebooks. It's up to the platform to decide the price, discount it and offer.

What are the emerging opportunities for you?

We are really excited about language publishing. We started with Amish [Tripathi]. We have published 300,000 copies of all the three books (Shiva Trilogy) in Hindi. We then looked at Tamil, Marathi. Once we did Amish, we looked at other bestselling authors like Rashmi Bansal and Rujuta Diwekar. ◆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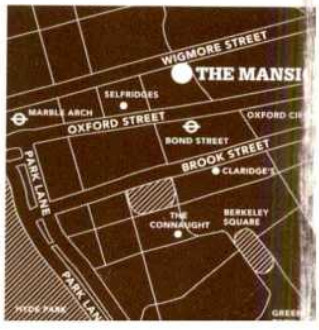

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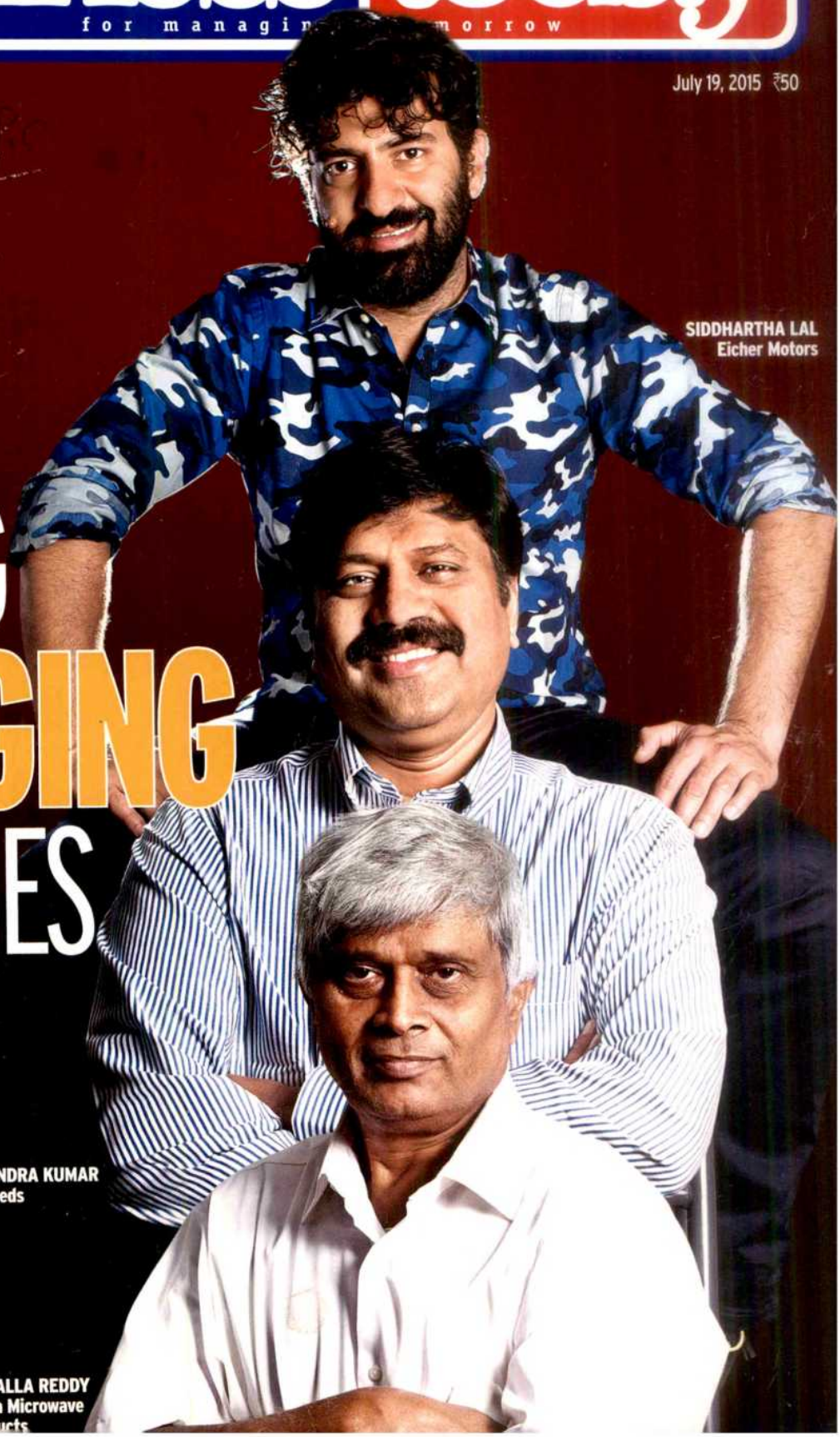

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From the Editor

The Emerging Giants

At the moment the jury is still out on whether the Indian economy has moved back to a high growth path or not. According to government statistics, India's economic growth accelerated to 7.3 per cent in the last fiscal. The government says that this is conclusive proof that *acche din* are finally here. On the other hand, many respected economists – even the Reserve Bank of India – have wondered why GDP growth is at odds with other parameters of the economy like credit growth. The issue is that there has been a revision in the way the government measures GDP now, and quite a few commentators feel that the current methodology overstates growth, while there is not enough evidence that things have changed on the ground.

The RBI, for example, pointed out that despite the high GDP figures, credit growth has been painfully slow. And deposit growth has also been slow. Meanwhile, corporate results for the March quarter were nothing to cheer about, while exports have been dropping for some time.

There is also some evidence that things are definitely getting better – if they haven't got better already. Inflation is down, more FDI is flowing into the country, and there is a record amount of mergers and acquisitions taking place. Venture capital is flowing steadily into start-ups, and indirect tax collections have also improved, as have car sales – a key indicator of economic sentiment. So, if *acche din* are not here yet, there seem enough signs that things will improve in the next couple of years – assuming that the Greek situation and other such global crises do not affect the Indian economy.

On the other hand, there is no doubt in anyone's mind – economists or laypersons – that the last few years were among the worst for the Indian economy in well over a decade. Even the best-managed companies in the country faced many challenges navigating the business and economic environment of the last few years.

Of course, a company's true character lies in not how well it manages growth and profits during an economic boom, but on how it steers through in bad times. As that old cliché goes, a rising tide raises all boats. And as a pithy quote attributed to Warren Buffett puts it: It is only when the tide goes out that you know who has been swimming naked.

Our special issue on the fastest-growing emerging companies in India is an effort to identify the mid-sized companies that were not swimming naked when the economic tide went out. The list of companies is quite eclectic and covers a wide-range of businesses. There are some old companies that were growing slowly in the past decade, but have shown a renewed dynamism in the past three or four years. There are also companies that are relatively new, but have set a scorching pace of growth.

This issue has been a true Team *BT* effort, with the research unit of Niti Kiran and Jyotindra Dubey burning the candle at both ends to crunch the numbers, while correspondents from all our bureaus reported on the companies that came out on top. Managing Editor Rajeev Dubey and Deputy Editor Alokesh Bhattacharyya anchored the issue.

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Hidden Jewels

This refers to your cover story on pharmaceuticals (*The Hidden Pharma Billionaires*, July 5). The authors have nicely analysed how these pharma entrepreneurs have built their business empires while staying out of the limelight. Great determination and an unmistakable passion are probably the main factors making their journey successful. Kudos to these eight hidden jewels of the health care sector, who – over a period of one and half decades – have not only created vast wealth for themselves and their shareholders but also helped expand the industry.

Abhinav P., *New Delhi*

Digital Dreams

This refers to your article on 3G services (*Distress Call*, July 5). It was an unequivocal assessment on the ailments that have afflicted 3G. This still-birth of 3G will have its ramifications on Prime Minister Narendra Modi's pet theme – Digital India. Telecom operators speak a lot but lack in everything, including in the areas of immediacy of access, security concerns, uninterrupted performance and promised commitment. The disjointed services on 3G networks have belied the expectations of the users and the incongruous status in telecom firmament falls far short of fundamental assurances of the service providers, including state-run BSNL. In the era of unified communication and Internet of Things, India cannot afford to lag behind. We want to compete with China, but we must realise that it is already 30 years ahead of us in all arenas, including telecommunications and its allied services. This awareness only will translate our digital dreams into realities.

B. Rajasekaran, *Bangalore*

Mentorship Concept

This refers to your article on Indian family businesses (*Learning from the Masters*, July 5). Basically, mentoring means an employee training system under which a senior or more experienced individual (the mentor) is assigned to act as an advisor, counsellor, or guide to a junior or trainee (the mentee). One can loosely define the mentor's role as that of a friend, philosopher and guide. No doubt, acting as a mentor for a "fee" may be another avenue of earning by sharing one's experience/expertise, but acting as a mentor for "free" gives more joy and satisfaction to the person playing the role of a mentor. In a country like India, where more than 50 per cent of the population is below the age of 25 and more than 65 per cent below the age of 35, the traditional concept of mentorship may not yield the desired results. And the new concept – reverse mentoring – being adopted by the new-age organisations, turns the old paradigm of mentorship into a higher and more effective collaborative effort. Thanks for the scintillating piece.

J.S. Broca, *New Delhi*

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FSSAI proposes fixing lead content limit in fruits, pulses and juices.
Thanks god! Suddenly India has woken up. - **Deb Sourobh**, *@DebSourobh*

Investments in India can now be committed without delay: FM Jaitley.
So are frauds. - **LastManStanding**, *@lull56inches*

PM Modi announces two crore new houses for the urban poor, launches AMRUT.
The nation can stop a while giving all kinds of subsidies and diverting all these resources to homes for the poor. - **Rampa_ib**, *@brpai65*

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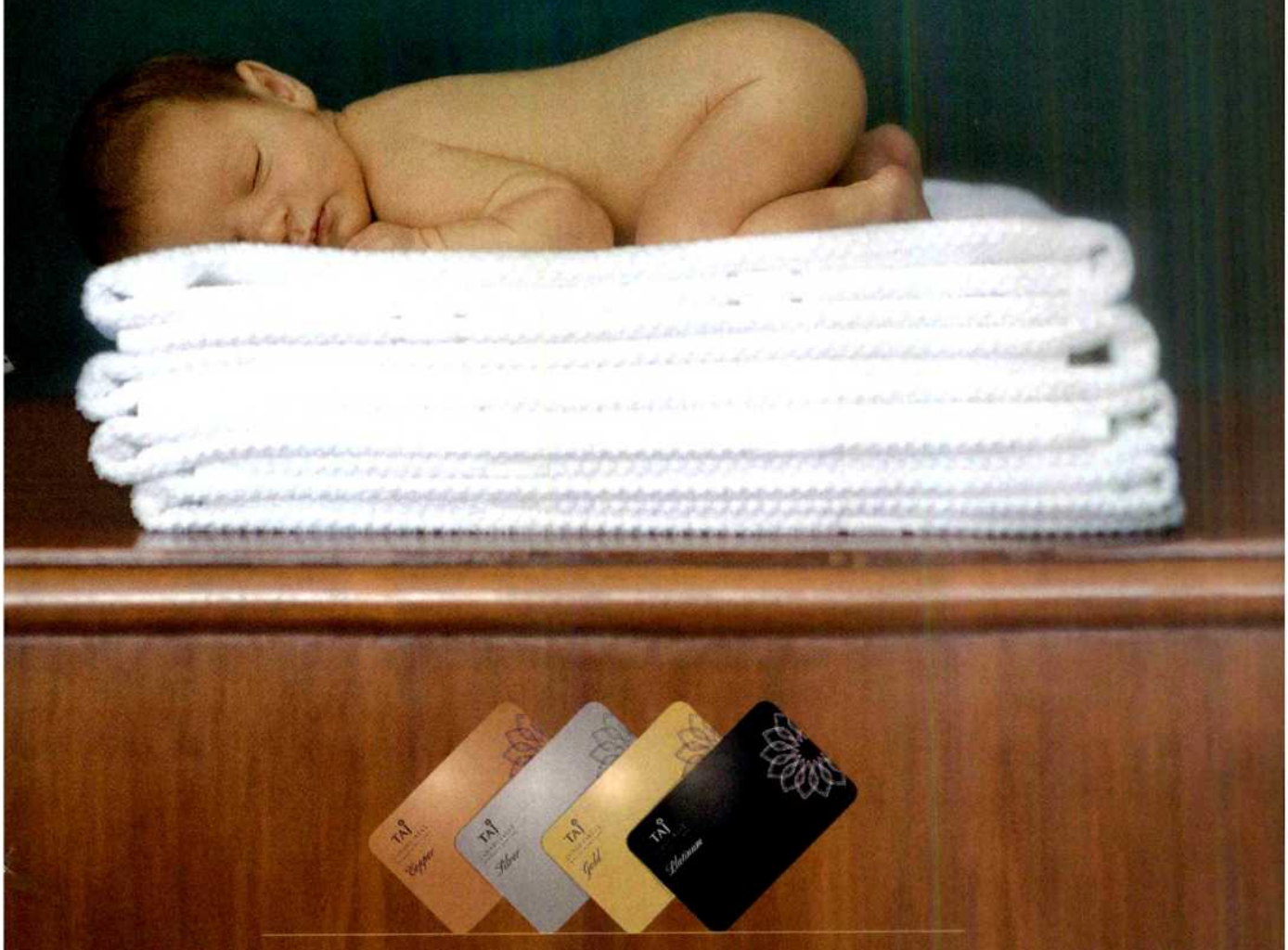

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COVER BY ANAND SINHA
COVER PHOTOGRAPHS BY VIVAN MEHRA AND A.PRABHAKAR RAO

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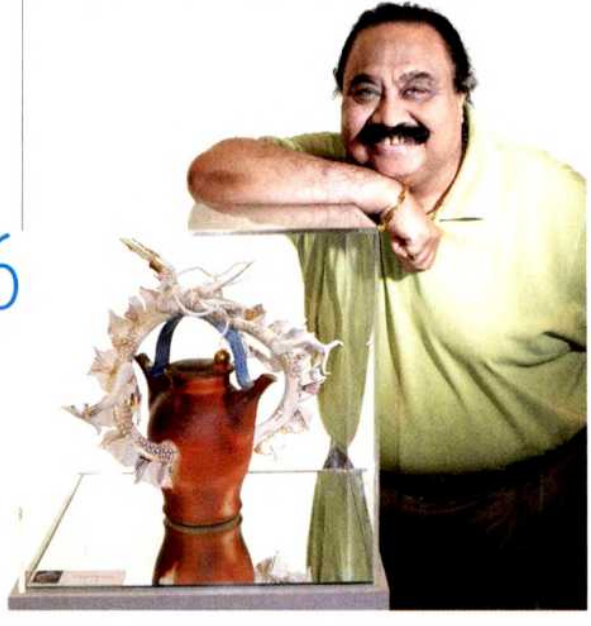

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"80% of our sales come from the offline model"
Sudhin Mathur, Director, Smartphones, Lenovo, shares the company's plans for India with **Nidhi Singal.**
businesstoday.in/lenovo-mathur

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Winning at Cannes
Sanjay Mehta of Social Wavelength shares tips on how to win a Mobile Lion at the Cannes ad festival.
businesstoday.in/socialwavelength-mehta

PERSPECTIVES

Too Early to Say
Jyotindra Dubey says monsoon may still be deficient despite surplus rains in June.
businesstoday.in/monsoon-june2015

Not Enough
Dipak Mondal feels the launch of Multix, Jeeto may not liven up the mini-truck segment.
businesstoday.in/auto-minitrucks

Tough Task Ahead
Goutam Das says aspiring smart cities have a difficult job ahead
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GADGET REVIEW

Nubia Z9 Mini
Good battery and performance let down by premium pricing.
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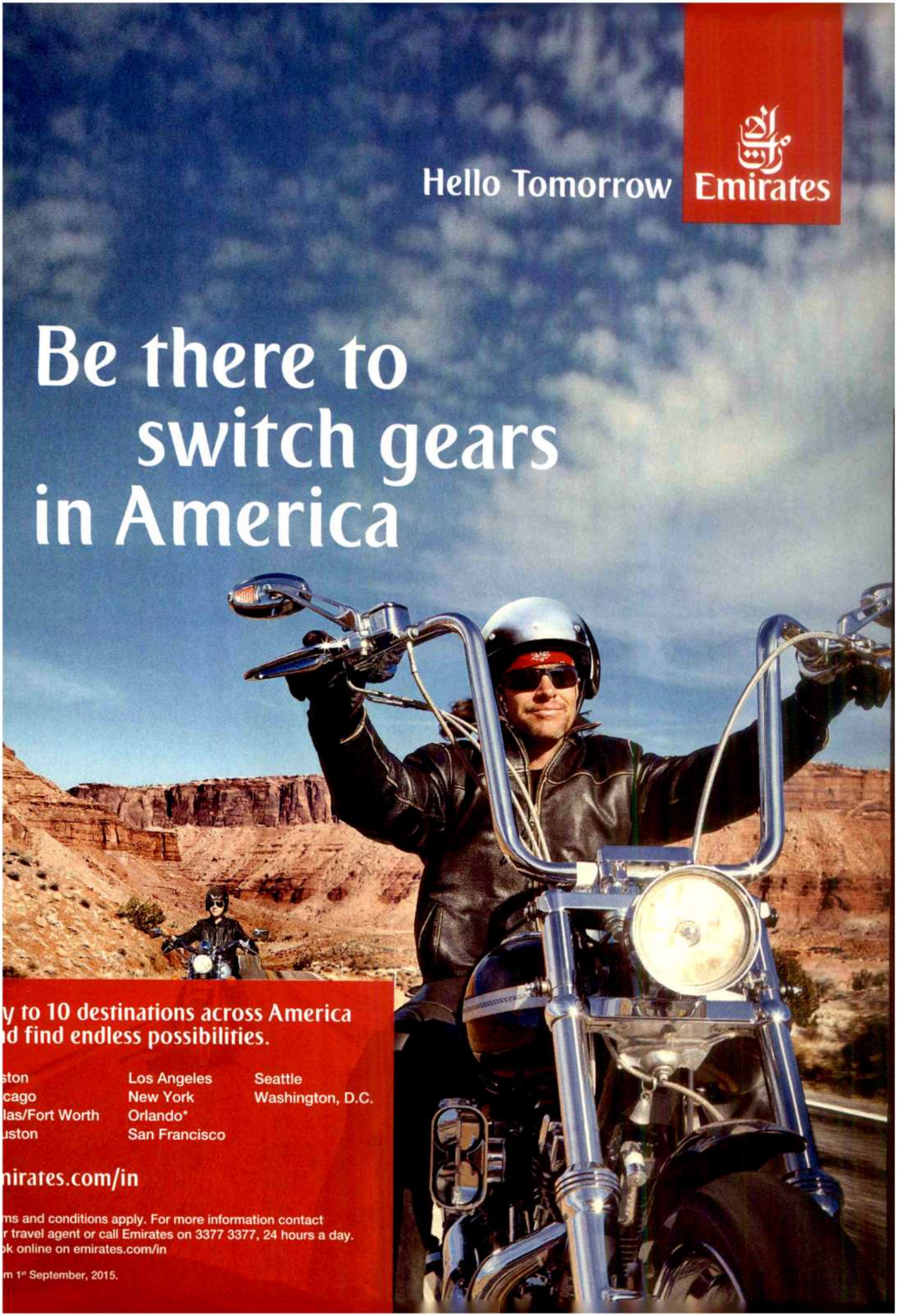
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m 1st September, 2015.

RAJ VERMA

ON HOLD

Adani Mining has asked its four engineering contractors working on the Carmichael project to stop work around the Australian mine, reports Reuters. The agency quoted Adani spokesperson Kate Haddan as saying: "This is only temporary." It quoted the *Guardian Australia* as saying that this raised speculation that the Gautam Adani-led company might scrap the project altogether.

TOM HOLLAND

The 19-year-old is the new Spiderman, coming after Toby Maguire, of the original movies, and Andrew Garfield, who starred in the refurbished *The Amazing Spiderman* ones. Maguire's three movies and Garfield's two have earned a combined $4 billion at the box office, making *Spiderman* the most lucrative franchise for Sony Pictures.

HEIR NOT-SO-APPARENT

Thirty-three-year-old Kamil Hamied, the supposed heir apparent at Cipla, surprised everyone by leaving the company to pursue personal interests. Older sister Samina Vaziralli's role has expanded. Kamil, whose father is Cipla Chairman Yusuf Hamied's brother, was working at Cipla's European subsidiary in London.

PINK BALLS

This has nothing to do with a sexual revolution. Cricket ball maker Kookaburra has made a pink ball for Test cricket. The ball may be used as early as later this year, during the first day-night Test match that might be played between Australia and New Zealand in Adelaide, Brisbane or Hobart. We will wait to see how it swings.

BITTEN APPLE, SINGED GREECE

Taylor Swift, 25, has become part of that rare breed that made Apple change its course. Her open letter criticised the technology titan's new music service that was not going to pay musicians during a free trial period for consumers. Apple buckled. The Twitter people asked her to also fix the crisis in Greece. That crisis, by the way, seemed to be getting deeper even as Eurozone finance ministers arrived in Brussels for their fourth meeting in eight days to work out a deal to prevent Greece's bankruptcy.

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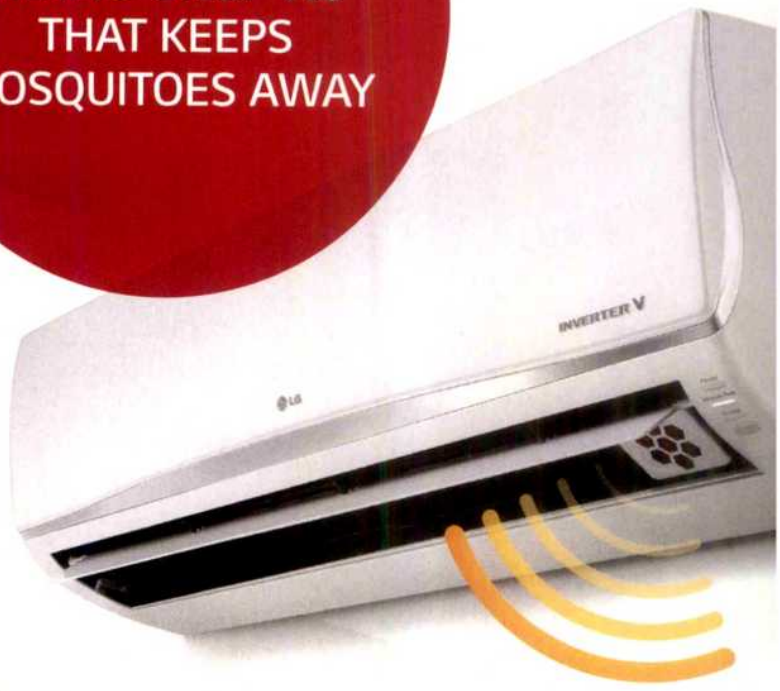

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RAJ VERMA

8 - 9

RUSSIA WITH LOVE

WHAT: PM Narendra Modi's visit to five Central Asian nations and Russia
WHEN: July 8-9

WHAT TO LOOK FOR: Modi's visit to Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan is expected to help India tap into huge natural resources including hydrocarbons and uranium in the region. Strengthening ties with Central Asian nations is seen as key to offsetting China's influence in the region. The visit will coincide with Modi's maiden visit to Russia for the BRICS summit on July 8 and 9. The BRICS summit will be followed by the 15th Shanghai Cooperation Organisation summit at the same venue on July 9-10.

1

TRADE WITH ASEAN

WHAT: India-Asean FTA
WHEN: From July 1
WHEN: Kuala Lumpur

WHAT TO LOOK FOR: The free trade pact in services and investment between India and the Association of South-East Asian Nations (Asean) will come into effect in July. India and the Asean constitute a community of 1.8 billion people with a combined gross domestic product of $3.8 trillion. Trade between the bloc and India was estimated to be around $56 billion in 2012/13. Also, trade ministers of the 16-member Regional Comprehensive Economic Cooperation Partnership, comprising 10 Asean members and its six FTA partners, including India, China, Japan, Korea, Australia and New Zealand, are likely to meet in Kuala Lumpur in July to discuss regional economic integration.

00

RURAL TECH

WHAT: Digital India launch
WHEN: July

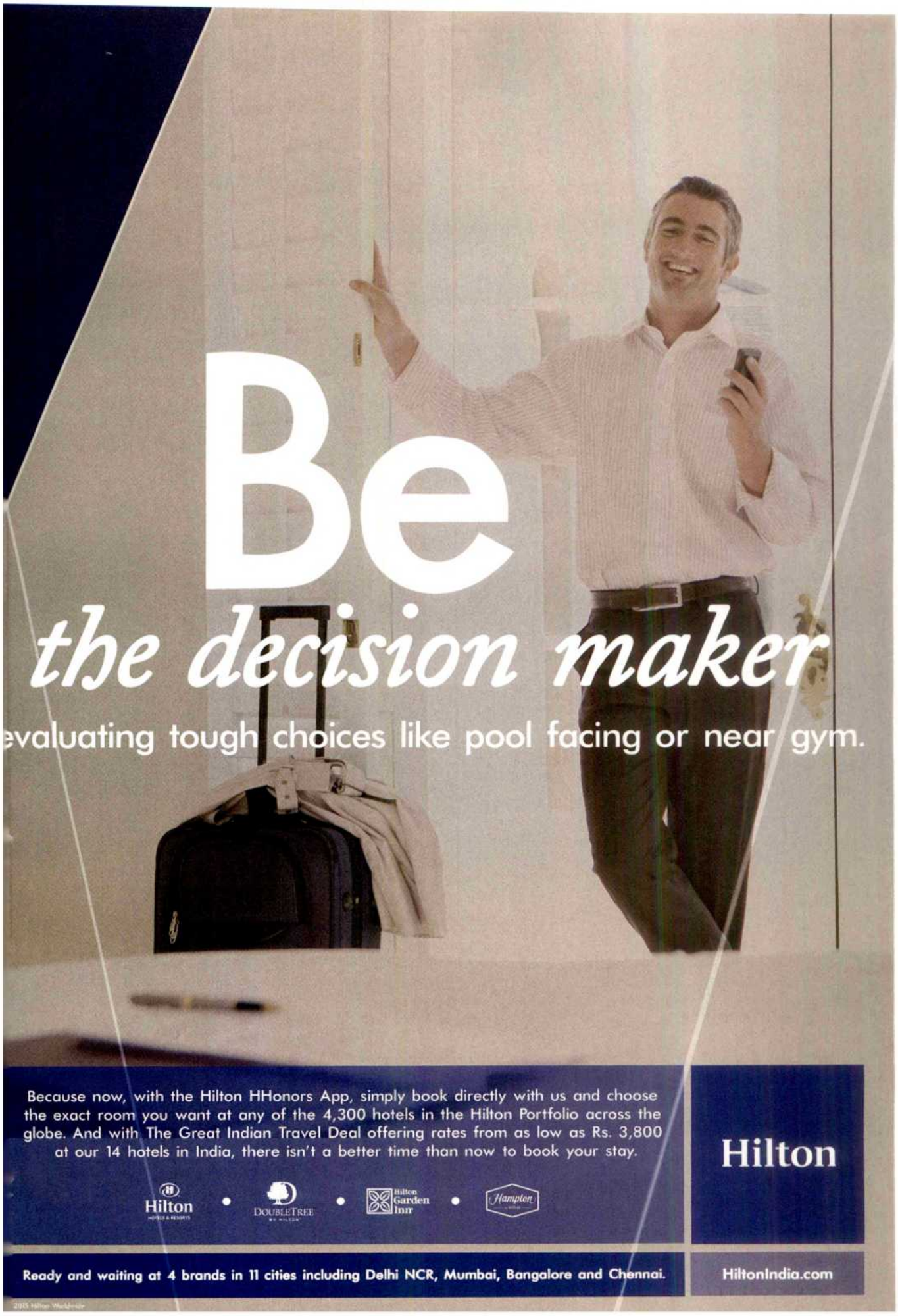
WHAT TO LOOK FOR: Digital India, with a budget of ₹1.13 lakh crore, brings technology to the villages and block levels. It groups several existing and new schemes of department of electronics and information and technology under one roof. This is seen as a flagship programme of the NDA government.

1

WHISTLEBLOWERS COMING

WHAT: Company secretaries as whistleblowers
WHEN: July 1

WHAT TO LOOK FOR: With the new Companies Act in place, company secretaries, like other statutory auditors, can now act as whistleblowers if they detect any fraud. The Institute of Company Secretaries of India President Atul Mehta said practising company secretaries will be mandatorily required to carry out the secretarial audit of companies whose paid-up capital is more than ₹50 crore and a turnover exceeding ₹250 crore. Companies will have to follow the secretarial standards and need to comply by July 1, 2015.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FOCUS

20 E-drugstore on Cards?

32 Graphiti: Praying for Ample Rain

AJAY THAKURI

Clearing the Decks

SEBI makes it easier for new age start-ups to raise capital but bottlenecks remain. By MAHESH NAYAK

₹10 lakh

The minimum trading lot size on the new platform for start-ups

The capital markets regulator Securities and Exchange Board of India (SEBI) has made it easier for Indian e-commerce companies, such as Flipkart and Snapdeal, to raise money and get listed in India. It has simplified the framework for capital raising by start-ups.

The new norms approved by the SEBI board mandate that stock exchanges would have a separate institutional trading platform (ITP) – Alternate Capital Raising Platform – for listing of start-ups from new-age sectors. It would be in

some sense similar to the London AIM exchange and Nasdaq.

It appears to be a proactive step by the regulator but the initiative is still work in progress. SEBI had little option but to open a new window for start-ups after technology companies Koovs and IMImobile listed on London's AIM exchange in 2014. "Stricter regulatory regime, need for track records, want of a better price discovery and absence of big ticket institutional investors lead certain Indian companies to overseas bourses," says Mahavir Lunawat, Group Managing Director at Pantomath, a Mumbai-based advisory firm. "Big e-commerce companies may not tap the Indian capital market but smaller less known start-ups will certainly take advantage of the new regulations."

New-economy companies can raise money from institutions and high net worth individuals on the Alternate Capital Raising Platform. "While the platform is similar to London's AIM, it has no cap on minimum promoter shareholding after listing," says Lunawat.

Some of the other proposals by SEBI include removing the cap on general corporate purposes. It's a big positive in the new norms, according to Lunawat. SEBI makes it mandatory for disclosures on the end usage of funds raised in the initial public offering (IPO) but has eased the rule for start-ups. The regulator has also relaxed the mandatory lock-in period for promoters and other pre-listing investors to six months, as against one year earlier.

But SEBI's initiative appears to be half hearted and may not make a telling difference on the ground. One of the reasons is the stipulation that only those new-age companies whose promoter (along with persons acting in concert) shareholding will be less than 25 per cent after the issue can access the route. It's a blow for small companies though it does not hold for some of the big companies like Flipkart whose promoter holding is already below 25 per cent. "Let us see how companies react to the new SEBI norms. So far, we have not received any enquiry or interest from companies," says Jay Parikh, Partner at Shardul Amarchand Mangaldas, a Mumbai-based law firm.

The regulation does allow loss-making start-ups to list on the ITP and migrate to the main board in three years. But for that to happen they will have to meet the listing criteria of the stock exchange. Interestingly, in India majority of start-ups are still burning cash and meeting this criteria looks difficult. "About 90 to 95 per cent start-ups fail in India. If they are unable to make profit in 10 years' time they would automatically be delisted from the ITP as regulation currently doesn't allow companies to list beyond that years on it," says Lunawat. However, after three years of listing on the ITP, the start-ups can list themselves on the SME exchange and thereafter graduate to the main board in two years – provided they have a paid-up capital of ₹10 crore – even if they continue to make losses.

There are grey areas too. It still remains to be seen what it entails for entrepreneurs in the non-technology space. "As noticed in the discussion paper on alternate capital raising platform by SEBI, the platform would initially be applicable only to start-up companies which are in the area of software product development, e-commerce and new age companies'," says Sharanya Ranga, Partner at Advaya Legal. "An undefined term in 'start-up' companies and a vague definition of whom the proposed platform would initially serve leaves a lot to be desired in terms of clarity."

SEBI HAD LITTLE OPTION BUT TO OPEN A NEW WINDOW FOR START-UPS AFTER A COUPLE OF TECHNOLOGY COMPANIES LISTED ON LONDON'S AIM EXCHANGE LAST YEAR

But all said and done, the new norms – even though half baked – are a step in the right direction. It allows the promoters of loss-making start-ups to dilute their stake and raise money through the ITP. Earlier, they could only list without raising capital through another ITP. However, SEBI needs to ensure liquidity on the platform. "Trading platform have not tasted success globally. In India, lack of liquidity in these trading platforms due to huge trading lot size (₹10 lakh) is the main reason for an ITP to be a non-starter," says Ranga of Advaya Legal.

Alternate capital raising platform is the third attempt by Sebi to incentivize small and medium enterprises to tap capital markets after the SME exchange and an ITP. The regulator will have to ensure liquidity, bringing in more participants to the new ITP, to make it an attractive fund raising conduit for start-ups. ◆

@MaheshNayak

RAJ VERMA

E-drugstore on Cards?

The central government is looking at allowing online sale of prescription drugs, but it may have serious implications for society as well as the healthcare sector. By P.B. JAYAKUMAR

PRESSURE FROM INDUSTRY LOBBIES IS MOUNTING ON THE REGULATOR TO ALLOW SALE OF DRUGS ONLINE

With the Centre willing to rewrite the rules related to sale of prescription drugs, the decks are being cleared for their online sales. In an industry meeting in New Delhi on June 17, Dr. G.N. Singh, the Drugs Controller General (India), said the pharmaceutical industry needs a new regulatory framework to bring e-pharmacy under its ambit. The Drugs and Cosmetics Act, 1945, does not have any provision for online sale of drugs. The regulator is planning to discuss and develop the guidelines within a few months in consultation with various stakeholders, including doctors, retailers, pharmacists and drug manufacturers. "The interests of small retailers will be protected and it will be ensured that e-pharmacy does not disturb the existing supply chain system. The aim would be to integrate e-pharmacy in the existing system," says Singh.

While pressure from industry lobbies is mounting on the regulator to allow sale of drugs online, other stakeholders are raising concerns about the safety aspect of such a move. "We are not going to allow e-commerce of medicines. Now, almost all children are ca-

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pable of using the Internet and the concept of prescription drugs against a photocopy of a prescription uploaded online to get a medicine can create havoc," says J.S. Shinde, President, All India Organisation of Chemists and Druggists (AIOCD), which has 5.5 lakh medical shops registered as members. The AIOCD is planning a nationwide agitation against the move. The Indian Pharmaceutical Association, too, has written to the DCGI protesting the move.

In India, one cannot sell or buy drugs on an e-commerce site. Drug sales are regulated by the Drugs and Cosmetics Act, 1940, and the Drugs and Magic Remedies and Objectionable Advertisement Act, 1945. Under existing laws, only licensed retailers are allowed to sell drugs on the basis of a doctor's prescription. Even for over-the-counter (OTC) drugs, a licence is mandatory. However, many companies are selling drugs online illegally and many more want to take the e-tailing route to tap the ₹83,000 crore market.

In May 2015, the Maharashtra Food and Drug Administration (FDA) had filed a case against e-commerce major Snapdeal for selling drugs. The Gujarat FDA, too, initiated action against online pharmacies. "By law, there is nothing called an e-pharmacy and, hence, there are no guidelines required to regulate them. If a patient orders sleeping pills online and takes an extra dose, who will be held responsible?" asks Maharashtra FDA Commissioner Harshdeep Kamble.

Recently, the Interpol, in a joint operation with other local international law enforcement agencies, initiated action against online pharmacies in 114 countries, closing down over 2,400 sites. From July 1, the European Union has mandated registration of such operators with regulatory authorities. The US FDA, too, recently took action against 400 online pharmacies. The US has comprehensive laws covering e-health and telemedicine.

"THE PHARMA INDUSTRY NEEDS A NEW REGULATORY FRAMEWORK TO EFFECTIVELY BRING E-PHARMACY UNDER ITS AMBIT... THE INTERESTS OF SMALL RETAILERS WILL BE PROTECTED"

Dr. G.N. Singh, Drugs Controller General (India)

"The drug distribution industry in India is poised to grow to $55 billion by 2020 and there is no harm in technology acting as an enabler in offering convenience to customers," says Phaneesh Murthy, Chairman of the soon-to-be-launched e-health exchange, PM Health & Life Care, and former i-Gate CEO. "Our lawyers studied the business plan and model. We have devised a system which complies with existing rules. Some former regulatory officials also vetted our system and found it fool-proof," says Hemant Kumar Bhardwaj, Chief Executive of PM Health.

"We will not sell physically to a customer, but note that no medical store keeps a record of prescriptions. It is a fact that patients order drugs over telephone and neighbourhood pharmacies deliver them. Then why is there such a big fuss about this model, which is convenient and customer-friendly?" says Pradeep Dadha, promoter of Netmed, a recently-launched online pharmacy based in Chennai. It has tied up with India Post to deliver drugs across India.

Experts say India is not mature enough to allow online sale of drugs. Unless the central government brings in fool-proof processes, there are chances of misuse, which can cause serious social issues. ◆

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THE CENTRE MUST BRING IN FOOL-PROOF LAWS, SYSTEMS AND PROCESSES. ELSE, THERE ARE CHANCES OF MISUSE

₹83,000 crore
Size of drug distribution business in India

₹3,46,500 crore
by 2020

Online drug sales
are illegal in India under existing rules

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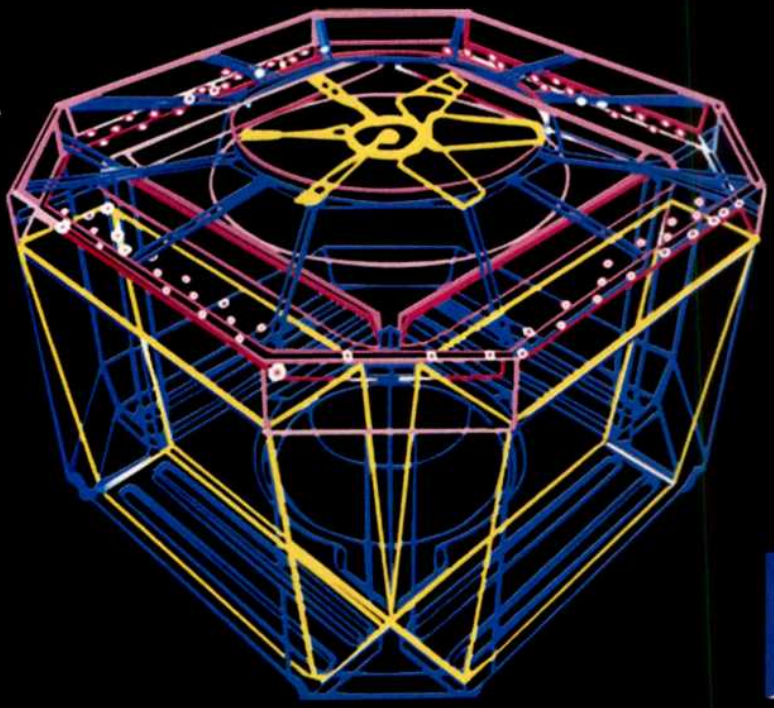

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Not A Done Deal

Anil Agarwal's plan to merge Vedanta and Cairn India may run into rough weather. By NEVIN JOHN

Big plans: Anil Agarwal, Chairman, Vedanta Resources

RACHIT GOSWAMI

He has always wanted to consolidate his businesses under one roof. Anil Agarwal has now unveiled an amalgamation plan for two of his group companies – mining company Vedanta would merge oil and exploration major Cairn India with itself. The proposal, if it goes through, would give Vedanta access to the oil explorer's cash reserves and allow it to pare the debt on its books.

Agarwal's plans though may come a cropper. Cairn's minority shareholders, including UK-based erstwhile promoter Cairn Energy (9.82 per cent stake) and LIC (9.06 per cent), are crying foul claiming low valuations for the company's shares. These shareholders would receive one Vendanta share along with one preference share, with a coupon of 7.5 per cent, for every share they hold in Cairn India. The offer made to the minority shareholders certainly appears poor as the effective merger ratio will be 1:1.04 including the sweetener of preference shares.

THE MERGER WOULD GIVE VEDANTA ACCESS TO THE OIL EXPLORER'S CASH RESERVES AND ALLOW IT TO PARE DEBT

In the last one year, the market valuation of the oil producer has halved because of the softening crude prices. Consolidated revenues and profit fell by 22 per cent to ₹14,646 crore and 64 per cent to ₹4,479.6 crore, respectively, in 2014/15. That's why some are calling it an opportunistic merger.

The merger plan might be rejected by minority shareholders, said Vikash Kumar Jain, an analyst at the brokerage CLSA Asia-Pacific Markets, in a report. "Approval from the government due to court cases and from minority shareholders because of unattractive valuations may prove a hurdle for this merger," he added. For the proposed merger to become a reality, at least 50 per cent of the minority shareholders should vote in its favour. LIC and Cairn Energy account for nearly half of the minority shareholders' stake. "From Cairn's perspective, we fail to understand the benefits of any synergies that could result," said Edelweiss Securities in a report.

Vedanta had a net debt of ₹37,636 crore and a highly skewed net debt to Ebitda (earnings before interest, tax, depreciation and amortisation) ratio of 14.2:1 as on March 31, 2015. It will now get access to the net cash of ₹17,040 crore on Cairn's books.

There is another hurdle. The income tax department has claimed ₹20,495 crore from Cairn India as withholding tax on alleged capital gains made by its erstwhile promoter, Cairn Energy, when it sold the company to Vedanta at $8.67 billion in 2011. The department is still adamant that it will defend the tax claim, even after the merger. This could spook Vedanta shareholders. ◆

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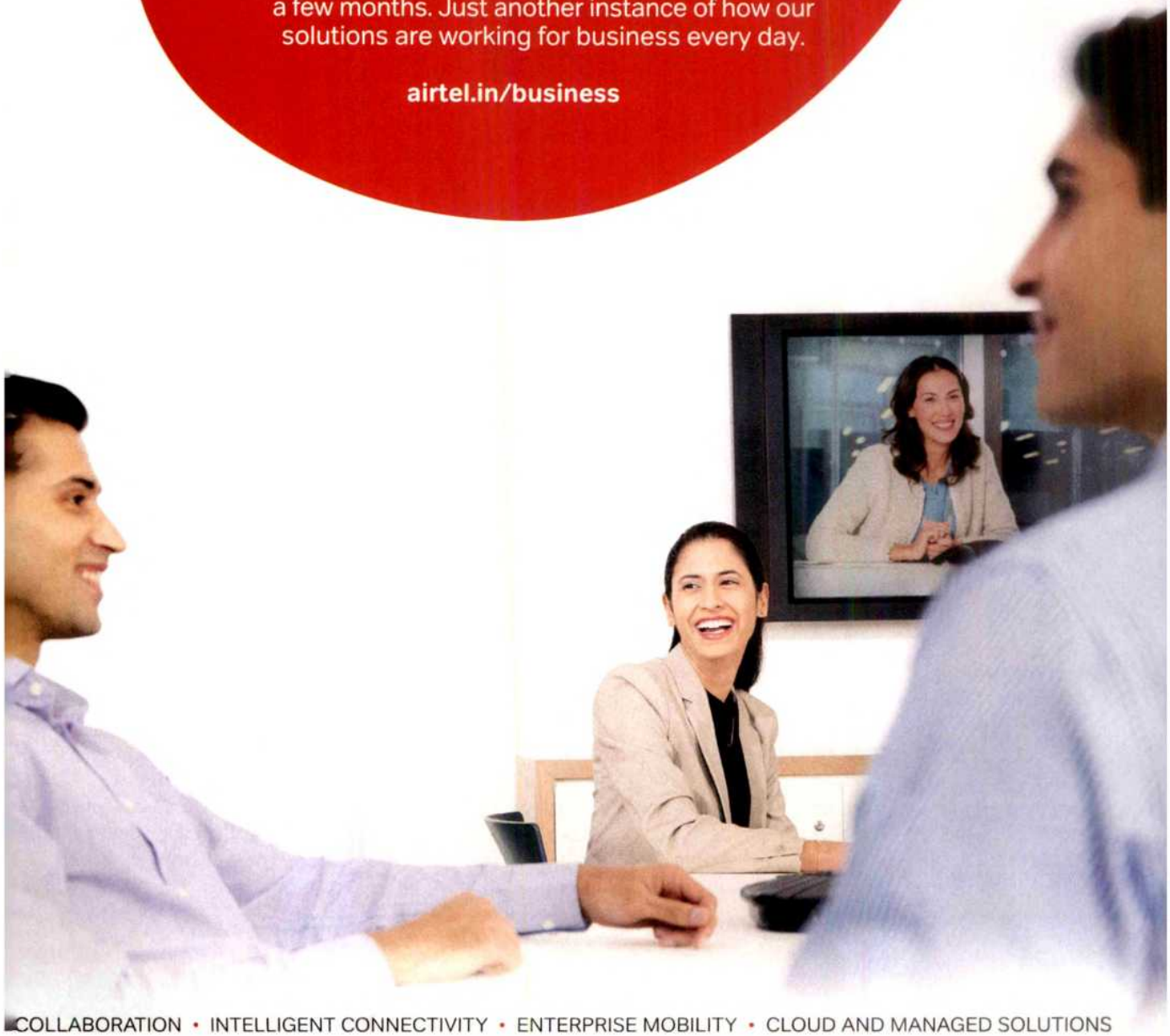

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New Battleground

Even after the Bombay HC verdict, the legal tussle between the YES Bank promoters is far from over. By ANAND ADHIKARI

YES Bank MD & CEO Rana Kapoor (L); and Shagun Kapur Gogia

In the 153-page order on the prolonged legal battle between Rana Kapoor and Madhu Kapur over the latter's rights to nominate directors on the board of YES Bank, the Bombay High Court has hinted amendments to the articles of association (AoA), while ruling in favour of the petitioner. "I have very little doubt that there are articles that require amendments, both for consistency, going forward, and also to resolve the present disputes," Justice G.S. Patel observed.

While the Kapur camp maintains that it was not a direction, but a mere observation by the court, YES Bank is emphasising on Justice Patel's observations. "AoA was written way back in 2003. Now, the purpose is to clean up the article so that it reflects the current realities and to institutionalise the ethos of the bank," says Sanjay Nambiar, Group President, YES Bank. An amendment to the AoA can be initiated through a special resolution at a general body meeting of shareholders.

ANY MOVE TO AMEND THE ARTICLES OF ASSOCIATION WILL RESULT IN YET ANOTHER LEGAL TUSSLE AS IT COULD IMPACT THE RIGHTS OF THE KAPURS

But, any such move is expected to boil down to yet another long-drawn legal tussle, as it could impact the rights of the Kapurs. And, neither Madhu nor her children – Shagun and Gaurav – are ready to give up without a fight. "There are lots of strictures against YES Bank and Rana Kapoor. There are governance and transparency issues in the way the bank is functioning," says Shagun.

Clearly, however, the reference to Rabo Bank, which had initially offered financial and strategic support to YES Bank but exited in 2012, must be omitted from the AoA. Under Section 110(b), Rabo had the right to recommend one director on the board. But, the bigger need, perhaps, is to address issues related to the bank's Indian partners – Rana and Madhu – who have the rights to jointly recommend three directors on the board, as long as each holds a 10 per cent stake.

There is a view that the Indian partners' rights existed to balance it with Rabo Bank. There could be a case of taking away the rights of both the Indian partners if one has to balance out the rights argument. This could be yet another flashpoint. Says Shagun: "As the Indian partners have the right to choose the managing director and the chairman, they also have a right to choose whole-time directors. That is not balancing with Rabo Bank." Says Nambiar: "The court has said it is not necessary that Indian partners' representative directors' positions have to be filled in. The board can appoint suitable directors, not necessarily as Indian partners representative directors."

The clause relating to appointment of whole-time directors from top management executives is another article where Madhu Kapur has joint rights. The other route to appoint a whole-time director is selection by the board. Two years ago, YES Bank had recommended three employees as director on the board. This decision was set aside by the court. This clause again creates a logjam for the bank if it wants to promote its executive on the board. Madhu Kapur is not going to give up her rights. There is a view in the bank that the court has gone wrong on the facts, which they would be pointing out.

Whatever it may be, amid all this confusion, one thing is clear: the Kapur vs Kapoor battle is not going to be over anytime soon. ◆

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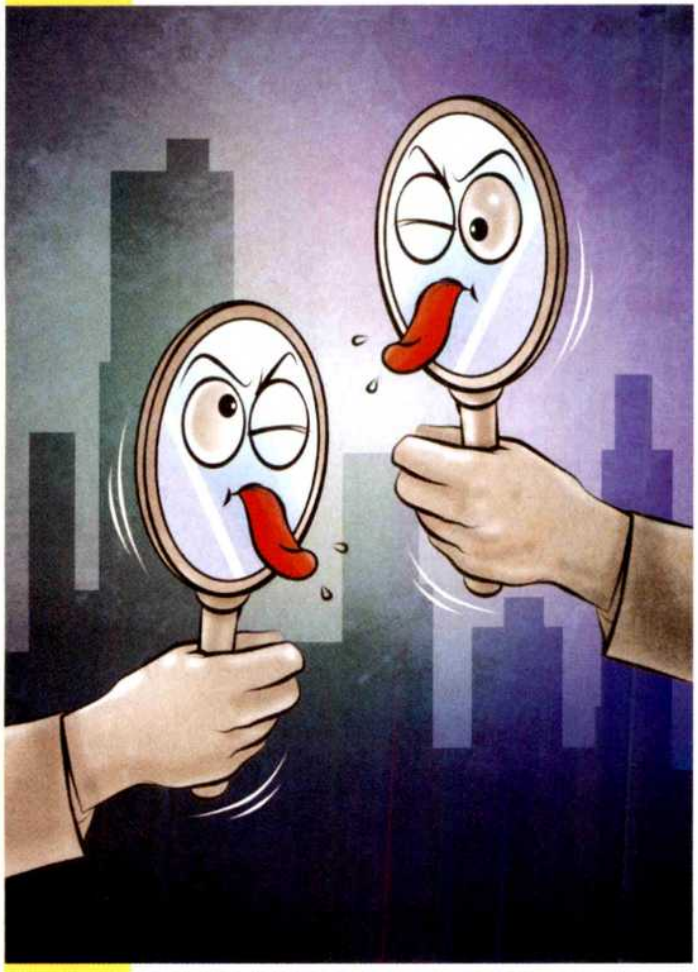
Ambush Marketers

E-tailers spent a whopping ₹1,000 crore on ads last year, but this year it is all about one-upmanship. By AJITA SHASHIDHAR



AJAY THAKURI

WE ARE SEEING PEER BRANDS TRYING TO OUTWIT ONE ANOTHER AS PART OF THEIR CONSUMER ACQUISITION STRATEGIES

Tune into a TV channel or scan the roadside hoardings, you will find India's largest e-tailer Flipkart screaming *Acha Kiya Nahi Kharida*. Its rival, Snapdeal, isn't far behind, taking potshots at the teaser campaign, and screaming even louder: *Achha Kiya Nahin Khareeda, Yahan Se Khareedo*.

Year 2015 is turning out to be one where e-commerce companies are not only making their presence felt as formidable forces, but are also trying to outwit each other. In March, online housing solutions company Housing.com went about very aggressively with their new brand campaign: *Start your new life today. Look up*. Competitor Commonfloor soon responded with: *Thank you for looking up to us*. But, Housing was no lame duck, and retaliated with yet another showstopper: *Well that's not enough yet. Look up more*.

That's not all. Online room aggregation company Zo Rooms also pulled off a campaign against Oyo. Marketing basics say ambush marketing is done by challenger brands because they want to make themselves heard. But, here we are seeing peer brands that entered the market at the same time, trying to get the better off one another as part of their aggressive consumer acquisition strategies.

But, will Snapdeal's humorous response to Flipkart help grab eyeballs? "They should focus on merchandising, pricing and other important parameters such as ensuring hassle-free delivery and superior packaging. That will help them win consumers. I don't think ambush marketing will help," says Peshwa Acharya, founder, *thinkasconsumer.com*, and former chief marketing officer of Reliance Retail. Ajay Kelkar, COO of Hansa Cequity, agrees: "Ambush marketing makes a brand look like an aspirer and, if the consumer does not see it that way, the purpose is defeated."

"However, if ambush marketing is executed well, it can also do wonders," says Devendra Chawla, CEO, Foods, Future Group. As a former marketing director at Coca-Cola India, Chawla had learnt how Pepsi stole the show with its *Nothing official about it* campaign during the 1996 cricket World Cup despite Coke being the official sponsor. "By spending a fraction of what Coke did, Pepsi ended up getting more mileage." Says Acharya, who was the then marketing manager at Pepsi: "Pepsi was a challenger brand. It was new in India, while Coke was the number one globally. It had nothing to lose and took advantage of it."

However, if an ambush campaign is not executed properly it can be disastrous, as Pepsi found out in 2005 when it attempted to make a spoof of a Coke campaign featuring Hrithik Roshan. "Brands look uncreative and copy cat if the ambush campaign isn't executed properly," says Chawla. ◆

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By JAY PARIKH

SEBI and Its (Over)reach

Why should the capital markets regulator intervene in genuine trades

The list of functions of the Securities and Exchange Board of India (SEBI), under the SEBI Act 1992, include "regulating the business in the stock exchanges and any other securities market" and "prohibiting fraudulent and unfair trade practices relating to the securities market". The SEBI Act also provides the market regulator with the power to suspend trading of any security on a recognised stock exchange by an order pending investigation or on completion of such inquiry.

In the case of Surana Solar, the suspension of trading of the company's securities by the circuit breaker was logical. The circuit breaker is a device put in place for protection of the investors and the company against, among other things, price manipulation. On the other hand, the SEBI decision to issue e-mails to the relevant stock exchanges for withholding pay out of Surana Solar securities for the trading done on June 10 and June 11, 2015, however, seems excessive. The powers and functions of SEBI are open-ended and can seem to justify regulatory overreach at times.

It is still not certain if there was any fraudulent and unfair trade practice in Surana Solar securities by any of the entities involved. It may have been an attempt at a "pump and dump" scheme or it may have just been "the sheep following the shepherd" reaction due to the investments by the namesake of a reputed investor. In either case, the suspension of trading does affect legitimate trades and due to the lack of clarity on the transaction this seems to be a premature step by the regulator. What may be considered as a "fraudulent or unfair trade practice" is spelt out in the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (FUTP Regulations). Under the FUTP Regulations, dealing in securities may be deemed to be fraudulent or an unfair trade practice, if it involves (a) any act or omission amounting to manipulation of the price of a security, (b) reporting, or causing to report by a person dealing in securities, any information which is not true, and (c) planting false or misleading news which may induce sale or purchase of securities. The FUTP Regulations may be said to specifically cater to "pump and dump" schemes.

The FUTP Regulations also allow SEBI to (a) suspend the trading of the security found to be or *prima facie* found to be involved in fraudulent and unfair trade practice on a recognised stock exchange, (b) direct an intermediary, or any person associated with the securities market in any manner, to not dispose of or alienate an asset forming part of a fraudulent and unfair transaction, and (c) prohibit the person concerned from disposing of any of the securities acquired in contravention of these regulations. In Surana Solar's case, SEBI sent directions to the recognised stock exchanges to withhold payment for trades on two days. In the past, SEBI had passed an order in the case of P.M. Telelinks Limited and 8K Miles Software Solutions Limited, restraining the parties involved in a "pump and dump scheme" pending investigation. However, SEBI did observe trading of P.M. Telelinks shares over a period of around 200 trading days and 8K Miles Software Solutions shares over a period of 116 trading days.

SEBI does not have any specific regulation in place to tackle "pump and dump" schemes. However, it has the Data Ware Housing and Business Intelligence System to spot such attempts.

While the powers of SEBI and the actions taken by it in respect of the Surana Solar securities may seem arbitrary, it must be noted that the regulator has taken a proactive approach in the general interest of investors. There is a very thin line between regulatory (pro)activism and overreach. It can be said that SEBI is on a slippery slope as it is very easy to cross the line. ◆

Views are personal

Jay Parikh *is Partner, Shardul Amarchand Mangaldas*

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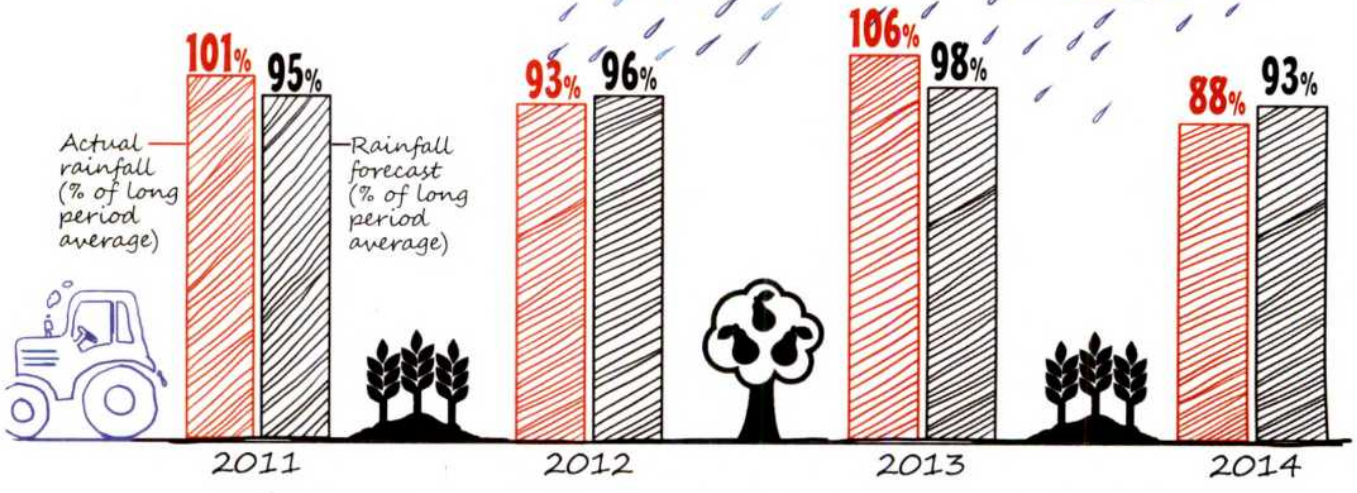
PRAYING FOR AMPLE RAIN

The India Meteorological Department has predicted a deficient monsoon this year. And although rainfall in the first half of June was above normal, the forecast is sending some distress signals across due to the monsoon's impact on the economy

Graphic by: **Anand Sinha & Ajay Thakuri**
Research by: **Niti Kiran**

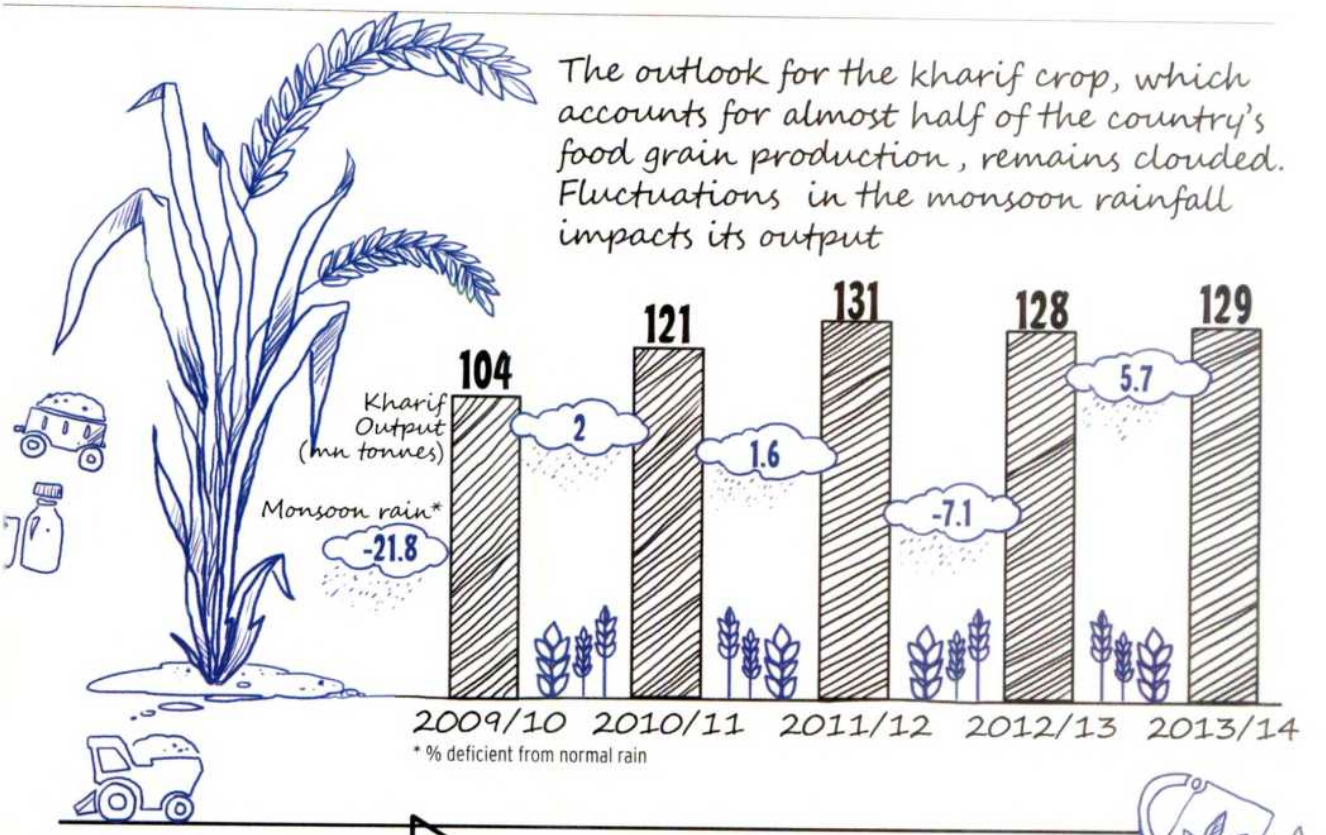
The IMD predictions are often close to the actual rainfall but on occasion have turned out to be either too optimistic or too pessimistic...



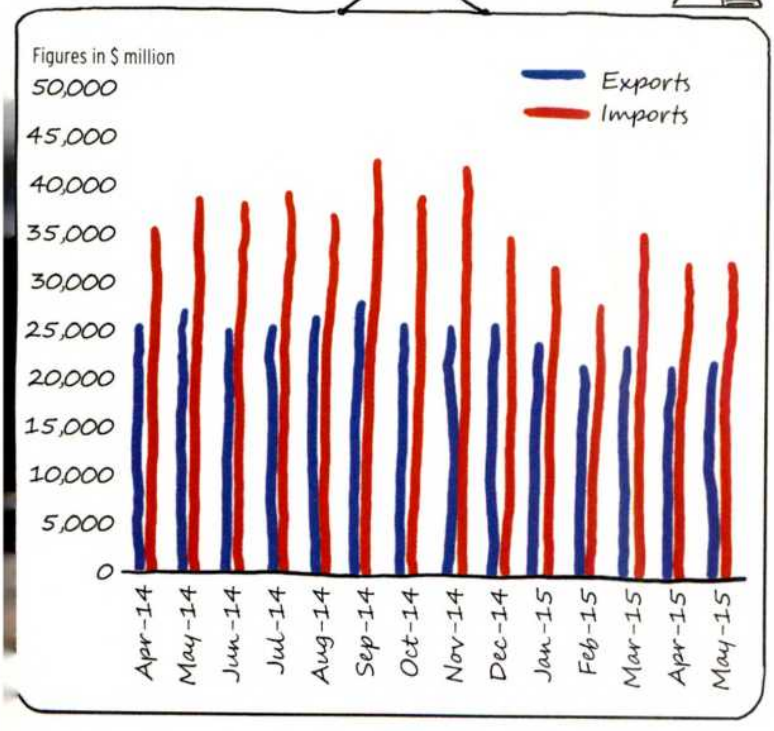
... a deficient monsoon, if it happens, will hit agricultural GDP growth as witnessed last year

5.0%	1.2%	3.7%	0.2%
2011/12	2012/13	2013/14	2014/15*

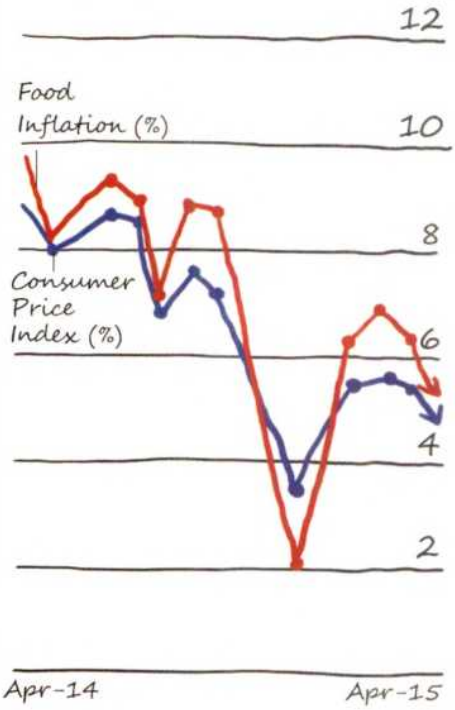
The outlook for the kharif crop, which accounts for almost half of the country's food grain production, remains clouded. Fluctuations in the monsoon rainfall impacts its output



A weak monsoon could deal a blow to exports. Farm exports could take a knock, widening the trade deficit



Two consecutive poor monsoon seasons will certainly pose a challenge in taming inflation



Sources: IMD and RBI

WHAT'S TRENDING

Roll Call on Twitter

From using social media as a recruitment tool and building employee engagement to marking attendance, HR practices are taking a leap.

By **CHITRA NARAYANAN**

RAJ VERMA

When it comes to talent search, companies have taken to social media like a duck to water. A LinkedIn survey pegs that nearly 44 per cent companies in India use social media to hire. HR practitioners are increasingly using social platforms for engagement and as a learning platform.

But just imagine using social media for attendance. Bang In The Middle, a three-year-old ad agency in Gurgaon, has moved its attendance systems to Twitter. Six months ago,

SOCIAL TOON

the agency junked its old-world attendance register and created a special hashtag for its employees on the micro-blogging site.

Each morning, the agency's staffers post selfies on Twitter with the hashtag #PresentSir. "We are a new-age company. We felt we should use new-age methods," quips Managing Partner Naresh Gupta. The advantage is that employees who are out for meetings or at a client site can register their presence from there. "Attendance over Twitter gives me two things – location and a time stamp." It can also tell clients whether the person they are dealing with in the agency is in office or not.

Going public with attendance is very in. Take the Modi government's *attendance.gov.in* portal, whereby any citizen can find out if an official is present. Apart from transparency, the portal was also supposed to generate nifty analytics on how regular at work the government servants are.

Indeed, a host of plug and play attendance apps and software that large companies use throw up automated analytics at the click of a button. On the downside, these systems using biometrics or access cards can cause irritation among employees who are "on the move". Reports suggest the government's attendance system has already run into non-compliance issues.

The drawback in the Bang In The Middle Twitter attendance system is that the collation of each employee's records is still manual. For a 50-member office, it is not a big deal, but for large corporations, social media attendance is not practical right now. As James Thomas, Country Manager, India, Kronos, says: "A lot of adhoc attendance solutions get deployed in workplaces when solutions need to be industry grade, scalable, reliable, and sustainable to larger populations spread across locations." But he admits the impact of social media is an engaging conversation especially among millennials and Gen Z who would seek flexibility. As Gupta says: "It makes the entire process of coming to office a little more fun. People even check-in in groups."

Nabomita Mazumdar, Partner, Cite HR, a community for HR professionals, describes how companies like e-Zest announce their employee of the month on Facebook or how PriceBaba shares its work culture on YouTube. "Inventive ways are here and we will see a new high in firms using social media," she says. ◆

@ndcnn

AJAY THAKURI

LISTENING POST

It's all About Politics

Facebook and Twitter are full of political debates and posturing. Yet, Sean Parker, the Silicon Valley billionaire behind Napster and Spotify and even Facebook (he was the first president), feels there is space for a network devoted to politics. Enter Brigade, a start-up set up by him that aims to increase civic participation by asking users to make snappy judgement calls on issues and then see how their thinking matches with their friends. Investors in the app include Salesforce CEO Marc Benioff and veteran venture capitalist Ron Conway. Will it get America more engaged in politics? And, will it find applications in India?

Super Private Network

For those worried about privacy, here comes Minds.com, a social network launched on web and mobile with the support of the influential Anonymous, a group of hacktivists. Just like any other social network, you post and your friends can view your updates. But the difference is that advertisers and government cannot access this as it offers end to end encrypted private messaging. And privacy does not mean lack of reach. The more active you are on Minds, the more you are rewarded with a greater reach that you get to control. How it works is that users who post more are given points that can be exchanged with views – the network will promote your posts. Sounds a bit contrarian, though.

Ask Away Anything

Quora has gained immense popularity as an ask anything service. Can newbie on the block Reveal challenge Quora? There are some differentiators. Reveal encourages users to ask and respond to questions, and rewards them by offering cryptocurrency – reveal coins. Every response has to begin with a photo or a video followed by text. Members can also earn reveal coins by referring new members to the network.

Should Indian advertising

By NARESH GUPTA

No, it is the equivalent of a selfie

Everyone in advertising loves awards. Now, clients' love awards more than the agencies. Fame is a potion everyone wants to be drunk on. Even if it means that the potion is self-brewed, self-served and is self-serving. That to me is the Cannes Advertising Festival. The festival is a self-created indulgence that is insidious and expensive. Cannes is the equivalent of a selfie. Today we know selfies are not good.

There are three reasons that are key to not attending Cannes. First is financial, second is strategic, and the third is practical.

The first reason is money. Cost of an entry at Cannes is ₹65,000 to ₹100,000 depending on the category. This year, there are 500 to 600 entries from India. No entry is filed in isolation. There is a significant expense in creating an entry – usually, a short film that narrates the story, which costs as much as the entry fee. Each delegate pays around ₹200,00 to get to participate in the show, not including stay and travel. Easily, over a 100-member Indian delegation is attending the fest. If you do the math, India this year may have spent close to ₹20 crore to participate and travel to French Riviera. While this may be small from the industry perspective, for an industry struggling to increase profitability, it is a huge cost.

The second reason is strategy. Participation in any industry award show is driven by how managers see long-term benefit accruing to the agency. Advertising is a business where the creative team works to get famous. They want their peers to celebrate them, be proud of them. The agencies that win awards believe that a good showing helps them win new business, grow exponentially and improve standing. The likes of Gunn Report who rank creative folks by the awards they win furthers this feeling of improved reputation. Nothing can be farther from the truth. Agencies win new business despite not winning awards. Agencies' reputation is not linked to only winning awards but also to how consumers react to brand messages and how much trust they have won of their clients. If anything, the agencies lose their key creative talent after the award shows. Those who win awards put a higher price tag on their talent, hungry agency heads make them better offers and a slew of musical chairs is played. Imagine if the industry had distributed the ₹20 crore it spent for awards between the key talent who matter, how much better it could have been?

> It makes little sense to hop across to the other end of world to hear increasingly stale brand ambassadors

The third is the reason of practicality. There was a time when participating in a festival like Cannes meant greater exposure to the best of art and craft in the world, and improving your own skills. Today, in the connected world, everything is available in real time: there is no new grand discovery that is being made at the festival. This year, big winners from ALS to Apple are all well-known and have been debated by the entire fraternity. The industry also knows clearly what is true brand work and what is 'created for awards' work. Organisers at Cannes do call a slew of key speakers to come and address the fraternity. However, today, most of what they say is available across many seminars and TED talk videos. It makes little sense to hop across to the other end of world to hear increasingly stale brand ambassadors.

This is the age of the connected world. In this connected world, a reclusive, self-contained, self-indulgent awards festival has lost relevance. Selfie, but why? ◆

Naresh Gupta *is Managing Partner, Bang In The Middle*

agencies go to Cannes?

By SUMANTO CHATTOPADHYAY

Yes, it stimulates their creativity

Cannes is costly. Very costly. But, then again, you get what you pay for. Your campaign is bathed in an international spotlight. Your creative people get the motivation they need to dig deeper and reach higher. Your clients feel gratified that they are working with the finest talent – talent that is making the most of their brands.

There was a time when companies like Unilever and P&G shunned what they saw as the tawdry glitter of this 'over-hyped' contest on the Riviera. But that was till they realised the incandescence of winning work lights up the brand and its market. Indeed, as number crunchers ought to know, the correlation between awards won and market results makes for excellent business sense.

Like any successful entity, Cannes is constantly evolving to respond to its environment – and its critics. Many of its newer categories are judged not by the yardstick of creativity alone but by market success as well. This development is designed to win over anybody who still believes that effectiveness does not sit well with creativity.

There are those who have questioned the relevance of the Cannes extravaganza in light of the shrinking size of traditional advertising. But they haven't noticed that Cannes stopped calling itself an ad festival and is now known as a festival of creativity. Creativity that encompasses every sort of new and emerging media, not to mention every degree of what used to be known as a 360-degree offering – from Direct to PR.

> It makes them feel part of an elite club; gets them to believe that they could win the next grand prix

Yes, the judging process is not perfect. But then again it can't be. The truth is that advertising and its brethren are at best only part science – no matter how much the suits would try to have you believe otherwise. You can endeavour to make communication scientific, but there remains at its heart a strong element of subjectivity. And the judging rightly reflects that.

Fame and fortune, some would say, are the two things that human beings hanker for in their professional life. Certainly, they are what creative people strive for, especially the former – given that it is difficult for most young creative people in India to make a fortune, fame ends up being the single most important motivator.

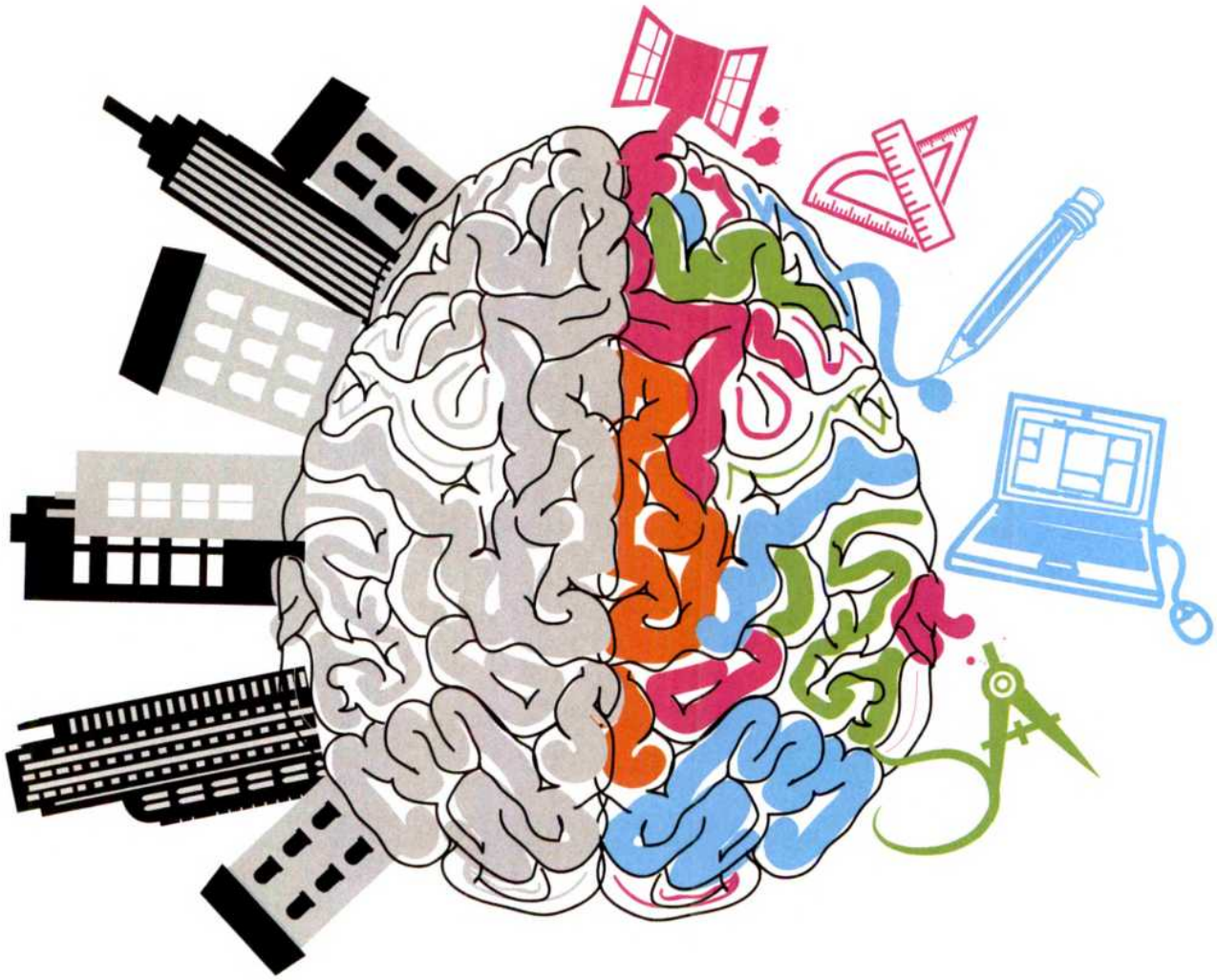
Let us also not forget about the learning circuit at Cannes: the talks, workshops and screenings. You can listen to Bono speak about the power of giving. Or learn how to write a super-hit script from the writer of *Game of Thrones*. Or simply be bowled over as a former US president tells you how creativity rules the planet. It is hard not to come out of these sessions without experiencing a high far higher than the drug-induced ones that creative people sometimes indulge in to crack an idea.

"It's an all-expenses-paid holiday, that's all it is!" – is a criticism levelled at the Cannes bandwagon. It is a bit of that. And why not? I would say it is a well-deserved reward for burning both ends of the candle around the year. "Cannes is one long debauched party," say others. And they are right too. But it is a party at which you may find yourself having a conversation over a drink with a celebrated grand prix winner from half-way across the world. There could be nothing more inspirational for some creative people. It stimulates their creativity; makes them feel part of an elite club; gets them to believe that they could win the next grand prix. And, as we know, nothing is more effective in making a person excel than self-belief.

Who wins? The agency does. The client does. The brand does. ◆

Sumanto Chattopadhyay *is Executive Creative Director, Ogilvy South Asia*

RIGHT AND LEFT.
WORKS BEST IN AN ARCHITECT.



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MAKING A GOOD Call

How a few companies are laying the foundation to make India a phone manufacturing powerhouse.

By GOUTAM DAS

Sunil Vachani's one-line profile on LinkedIn fails to reflect his entrepreneurial fervour, now more than two decades old. After all, the 'CMD at Dixon Technologies (I) Pvt. Ltd.' – as the profile reads – was one of the earliest in India to start an electronic manufacturing services company, making TVs, set-top boxes, DVD players, washing machines and induction cookers for top multinationals such as LG Electronics, Philips, Panasonic and Toshiba. Working through the rough-and-tumble of India's manufacturing landscape, it touched ₹1,200 crore in revenue in 2014/15.

Vachani, ever vigilant to new opportunities, started thinking about building an Indian multinational in the next 10 years, riding the country's ambition to become the factory of the world. Indian manpower, given the right environment, would be more productive than the Chinese, he told himself.

A Lava International assembling facility in Noida: The company has invested **₹50 crore** to set up the factory with a capacity of one million a month

VIVAN MEHRA

BULLISH ON INDIA

Many companies are setting up or expanding their phone manufacturing capacity

Company/Location
Investments made/Proposed

Lava
Noida
₹50 crore
PROPOSED: ₹1,200 cr

Samsung
Noida
₹517 crore

Spice
Noida
₹500 cr

Gionee
₹300 cr

Karbonn
Noida, Bangalore
₹200 cr

Dixon
Noida
₹25 cr

Micromax
Rudrapur
N.A.

Source: BT Research

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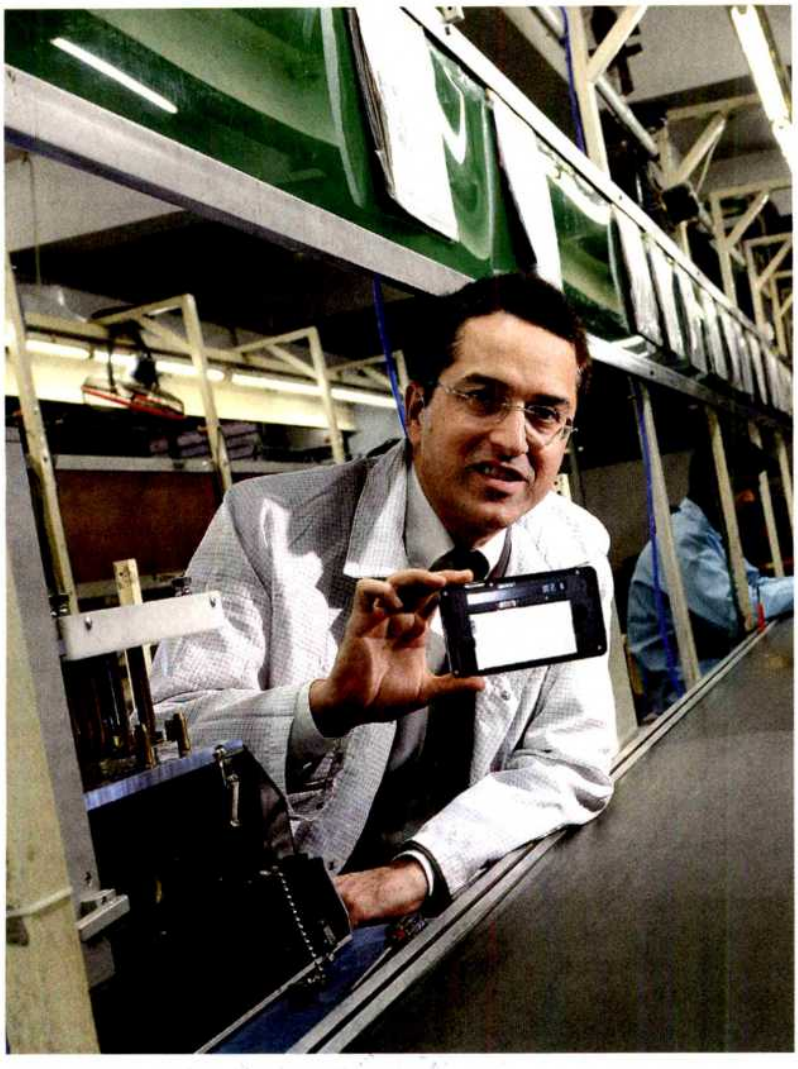


SHEKHAR GHOSH

SUNIL VACHANI CMD, Dixon Technologies

"An anchor client [at the Noida factory] will make two models out of the plant"

Then came March 2015. Three Chinese phone makers selling products in India approached him, one after another. Will he start a phone manufacturing plant?

Vachani jumped at the thought. Dixon is now setting up a handset factory in Noida with an initial investment of ₹25 crore. The plant, with a capacity to make 700,000 units a month, will start humming in August. "An anchor client will make two models out of the plant," says Vachani.

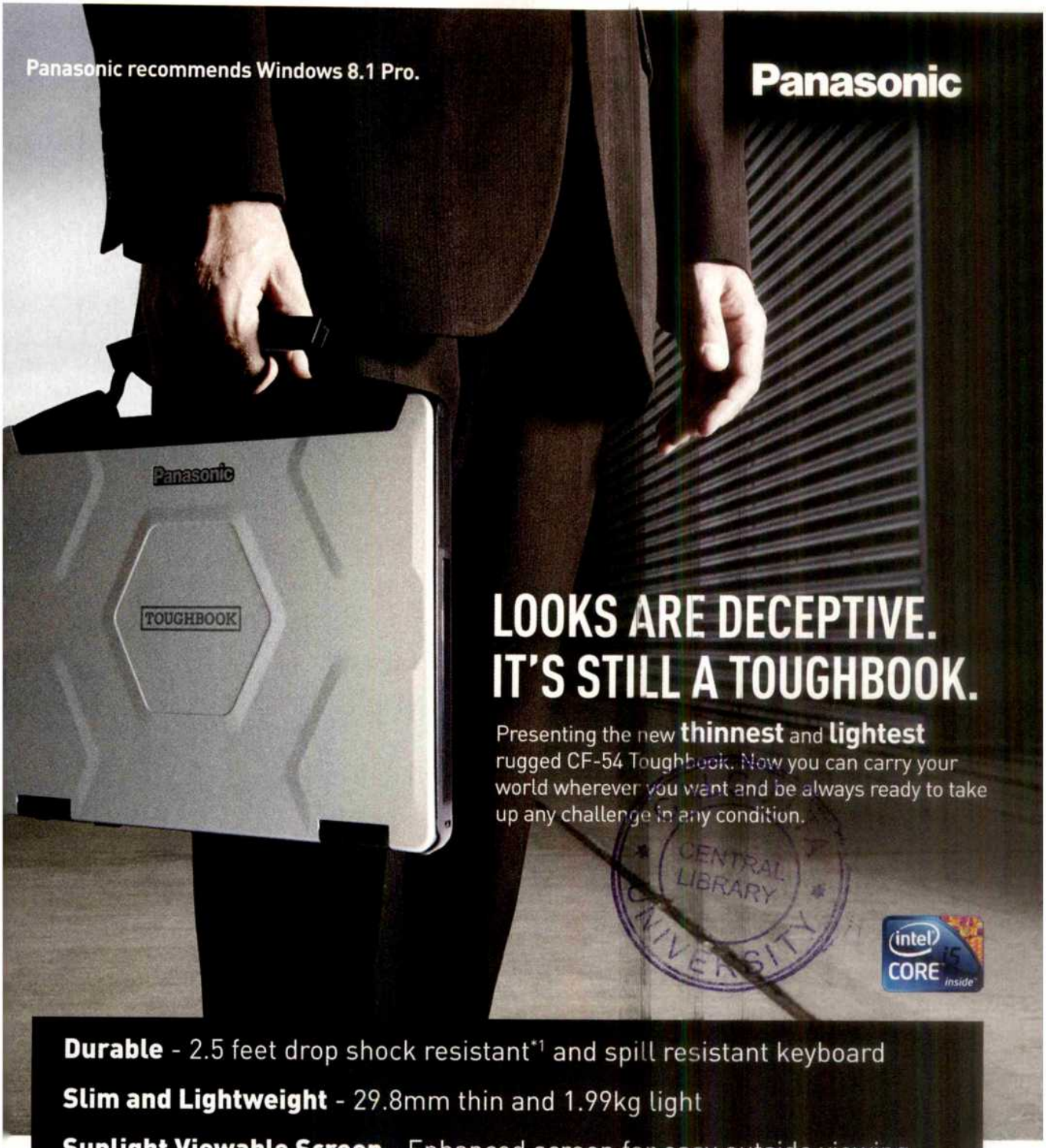
Dixon is not a one-off case. In the past few months, several phone sellers have announced that they want to make handsets in India instead of sourcing from China. Some have already started doing so while some, who were producing in limited quantities, have started scaling up.

For instance, Samsung, the country's largest phone seller, has been manufacturing in India since 2006. This year, it has spent more than ₹500 crore to add capacity at its plant in Noida where it makes many models, including the Tizen-powered Z1, Galaxy S6 and S6 Edge. Micromax, India's second-largest phone maker, has started a plant at Rudrapur in Uttarakhand and is planning investments in Telangana, Rajasthan and Maharashtra. Lava has so far invested ₹50 crore to build a facility in Noida to assemble one million units a month. The plant employs 400 people and assembles two models – X8 and Xolo. A second unit, with an investment of ₹1,200 crore and a capacity of 10 million units a month, is on the drawing board. Celkon Mobiles has a 30,000 sq ft. plant in Hyderabad with a capacity to build 3,500 phones a day.

Similarly, Spice Mobility is investing ₹500 crore in Noida to build a facility it says will be up and running by the next quarter. Karbonn is investing ₹200 crore in two plants, in Noida and Bangalore. "We will start production this month (June 2015). Overall, 10 lines will be up and running, which means a combined capacity of 40,000 units in one shift a day," says Karbonn Chairman Sudhir Hasija.

Chinese phone maker Gionee plans to invest ₹300 crore over the next three years. "We announced our Make in India initiative in early April and plan a full-fledged factory over the next three years. We will firm up local assembly plans within six months," says country CEO and MD Arvind Vohra. "The brand will initially go for contract manufacturing and look to set up independent manufacturing over the next 18 to 24 months," he says.

Tom Lu, the CEO of another Chinese handset maker, OPPO Mobiles, says the company will soon announce plans to make in India. And the big daddy of electronics manufacturing, Taiwan's Foxconn, is planning to build no less than seven-eight units, say sources. It did not respond to a clarification sought by *Business Today*.



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Recently, some media reports suggested that the company could make Apple's smartphones in the country. But sources told *BT* the deal has not been closed yet as Foxconn is still evaluating the idea and talking to different states for benefits.

Remember that these companies will assemble, not manufacture – the distinction is often lost in the noise over 'Make in India'. True manufacturing entails making components such as processors, cameras and touch screens as well. One can call it low-end work with little value addition but that is how most manufacturing ecosystems start.

Still, the larger point is that a second start is being made. The earlier one had come to an end with Nokia's plant at Sriperumbudur in Tamil Nadu. At its peak, the plant, Nokia's jewel in the crown, was the world's largest, producing more than 15 million units a month. It exported to 72 countries. Then came two tax disputes, with total claims of ₹17,658 crore. Slowly, the company shifted production to Vietnam. When Nokia sold its 'Devices and Services' business to Microsoft in September 2013, the tax authorities froze the plant, preventing a transfer. The plant closed in November 2014.

The $50 Edge

The closure of the Nokia plant means a lot of capacity is lying idle. India today has a capacity to assemble 270 million phones a year, according to data from the Indian Cellular Association. The figure for China is 1.1 billion. Because of economies of scale, and the presence of a full-fledged ecosystem, production cost in China is the lowest in the world.

The question, therefore, is – why should anyone make in India, especially when there are too many gaps in the country's ecosystem? For one, there is no component base here. This means high freight costs. And the cost of finance, power and water – key to electronic manufacturing – is lower in many other Asian countries.

In 2011, KPMG compared India and China's competitiveness in handset manufacturing. The landed cost of materials, it assumed, would be 10 per cent lower for the Chinese. While an Indian manufacturer would have to import 80 per cent components, the figure for a Chinese company would be only five per cent. Chinese labour, according to KPMG, was 1.8 times more productive. Power costs were 20 to 30 per cent lower while water was 30 to 35 per cent cheaper in China. These ensured that a mid-sized Chinese manufacturer with a capacity to make 20 million units a year would have a profit margin of nine per cent. For the Indian company, the figure would be 2.6 per cent.

However, since 2011, rising labour costs and currency movements may have eroded some of China's advantages. "In the past three to four years, labour costs in China have risen 20 per cent," says Alekh Tiwari, Associate Director, Management Consulting, KPMG. The rupee has weakened while the yuan has strengthened against the dollar. A weak currency aids exports. "China's competitiveness has been hit and handset manufacturers are struggling to maintain margins. Many companies from developed countries are looking at shifting production to Southeast Asia and India," he says.

On China's east coast, starting salaries in the mobile manufacturing industry are equivalent to ₹25,000 a month. In India, they are ₹7,000 to ₹8,000. Availability of manpower is also an issue. There are not enough people in China willing to do manual low-paying jobs as the country has moved up the value chain. "When an economy grows, there are enough opportunities. Nobody wants to work as a labourer," says Hari Om Rai, Chairman and Managing Director, Lava International. "I can see that manufacturing will shift out of China. India has huge human capital."

China also does not want to make basic phones due to limited local demand. "The Chinese can buy more expensive phones. In China, operators subsidise phones. In India, they don't," says Spice Mobility Chairman

PECKING ORDER THEN

India has slipped in the list of top mobile phone exporters

RANK	COUNTRY	VALUE OF EXPORTS IN **2009** ($ BN)
	World	**112.69**
1	China	**39.79**
2	Korea	**18.12**
3	Mexico	**9.65**
4	Hungary	**8.89**
5	USA	**3.92**
6	Taipei	**3.71**
7	**India**	**3.40**

PECKING ORDER NOW

RANK	COUNTRY	VALUE OF EXPORTS IN **2013** ($ BN)
	World	**192.22**
1	China	95.62
2	Vietnam	19.63
3	Korea	13.17
4	USA	9.69
5	Taipei	5.72
14	**India**	**2.28**

Source: Indian Cellular Association

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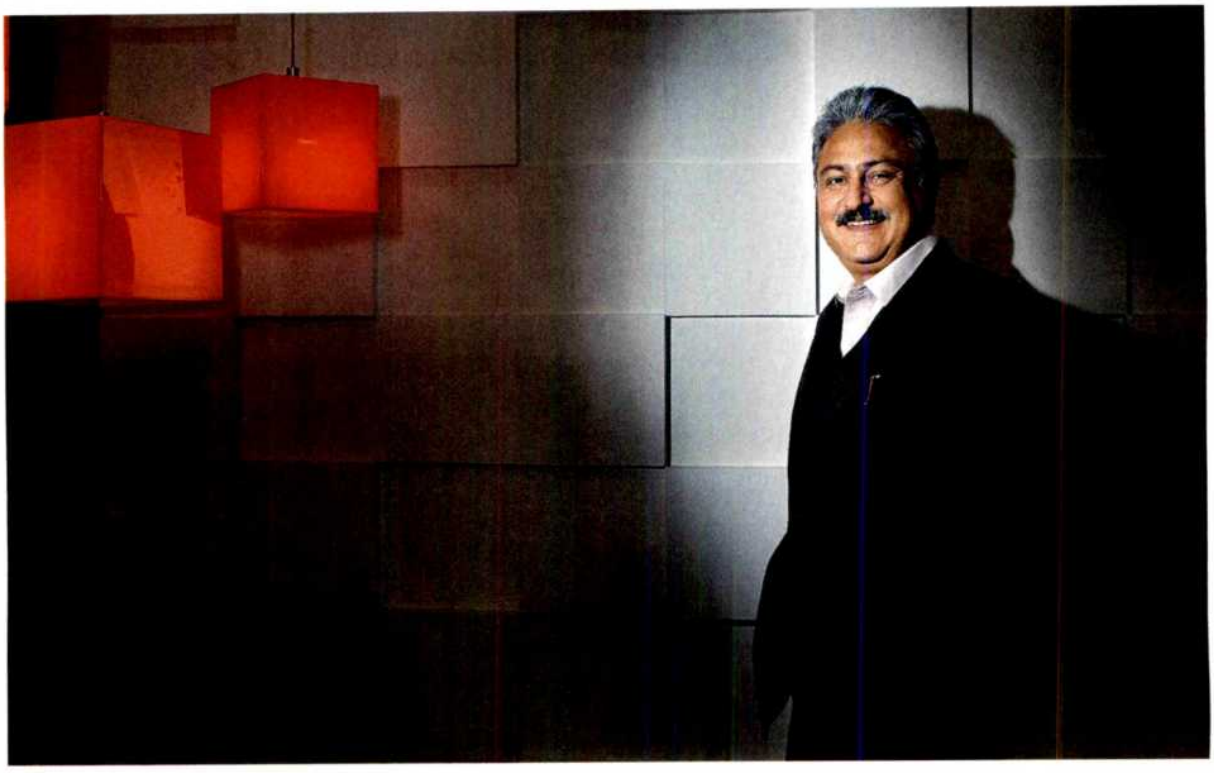

VIVAN MEHRA

SANJAY KAPOOR Chairman, Micromax

"If the world has to choose an alternative, India will be the most potent destination"

Dilip Modi. "In China, low-end phones have stopped selling."

India, too, is taking to smartphones, but has a long way to go. According to IDC, a market research firm, smartphones accounted for 35 per cent mobile business in the fourth quarter of 2014, up from 13 per cent in the same quarter a year ago. The country, therefore, has an opportunity to move into the entry-level market, just like in automobiles. Modi thinks India has an opportunity to lead in $50 (₹3,000) smartphones. "The cost of components is falling. China has seen the emergence of chipset companies. They have significantly brought down the cost of 3G chipsets. You can now give someone a 3G smartphone for less than ₹3,000," he says.

A Few Puzzles

It is fashionable to talk about a "China+1" de-risking strategy. Can India become an alternative? Sanjay Kapoor, Chairman, Micromax Informatics, believes so. "I think one of the most important ingredients for making manufacturing viable is domestic demand. India is a large market. If the world has to choose an alternative and have a de-risking strategy, India will be the most potent destination," he says.

But it will be a stiff climb up the hill for India given that Vietnam has done a good job of wooing the industry. Vietnam produced mobiles worth over ₹2.5 lakh crore in 2014/15. This is 12 times more than what India produced. China makes phones worth 60 times more than what India clocks.

Under the government's 'Make in India' campaign, phone sellers were nudged to go for local manufacturing. Micromax saw it coming before anyone else. Early in 2014, Vikas Jain, co-founder of Micromax, told *BT* the move to start making phones in India was aimed at managing risks. "As we talk of our huge trade deficit with China, we foresee that in times to come there could be some trade embargo or anti-dumping duty. We thought it would be prudent to have local manufacturing," he had said.

When we ask Spice Mobility's Modi whether the companies were coerced to make in India, he responds: "Coercion is a very strong word. There is encouragement."

However, taxation issues remain.

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The 2015/16 Budget had an 11 per cent excise duty differential between local and imported phones. This was a step up from the earlier figure of five per cent, designed to create a pull for local manufacturing. But a recent Supreme Court order, in a case related to SRF and ITC, implies that if there is no duty on domestic goods, there can't be a countervailing duty (CVD) on imports either. In an order dated March 26, the court held that SRF and ITC were entitled to exemption from payment of CVD. SRF, for instance, had imported nylon filament yarn and claimed nil rate of additional duty of customs. The customs department had held the company was not entitled for CVD exemption, but the court ruled in the company's favour.

Will the government respond with an alternative incentive? Pankaj Mohindroo, National President of the Indian Cellular Association, says the order will not hit manufacturing plans. "We believe India's fundamentals are sound. Incentives and enabling policies will make manufacturing happen. It is not dependant on one order," he says.

State chief ministers and the central government, meanwhile, are busy in the revival act. Information Technology Minister Ravi Shankar Prasad recently visited a Samsung fabrication plant in South Korea where he was "blown away" by the investment figure – $14 billion. Maharashtra Chief Minister Devendra Fadnavis went to see Foxconn's plant in China in May. In the past few months, bureaucrats have toured factories in Taiwan, Japan and Germany. The Ministry of Communications and IT has formed a "fast-track task force" – a motley group of phone sellers, tax advisors, skilling experts and bureaucrats – to "re-establish and catalyse significant growth" in mobile manufacturing. One of the group's terms of reference reads like a CEO's directive to business line heads. "To achieve production of 500 million units of mobile handsets by 2019, i.e., annual manufacturing output of ₹150,000 crore to ₹300,000 crore – 20 to 25 per cent of total global manufacturing." If that is achieved, it can employ 1.5 million people.

That will be a goal worth going after. But there's many a slip 'twixt the cup and the lip. ◆

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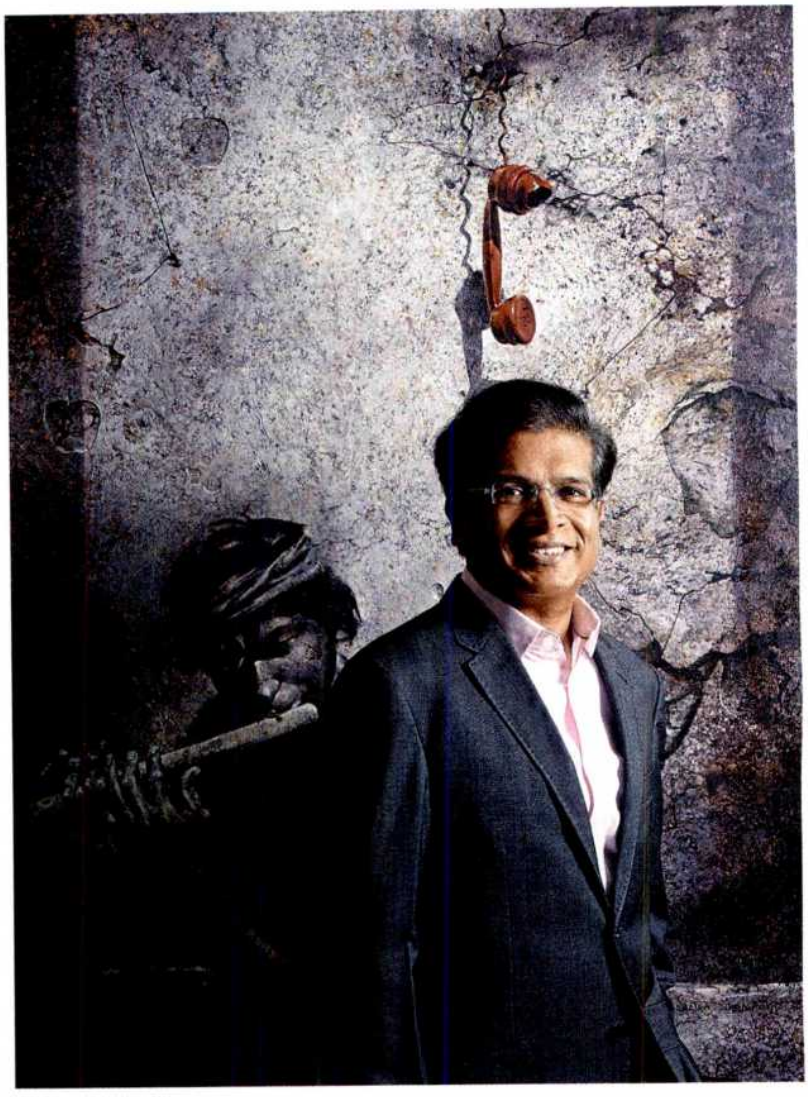

SHEKHAR GHOSH

DILIP MODI Chairman, Spice Mobility

"The cost of components is falling... You can now give someone a 3G smartphone for less than ₹3,000"

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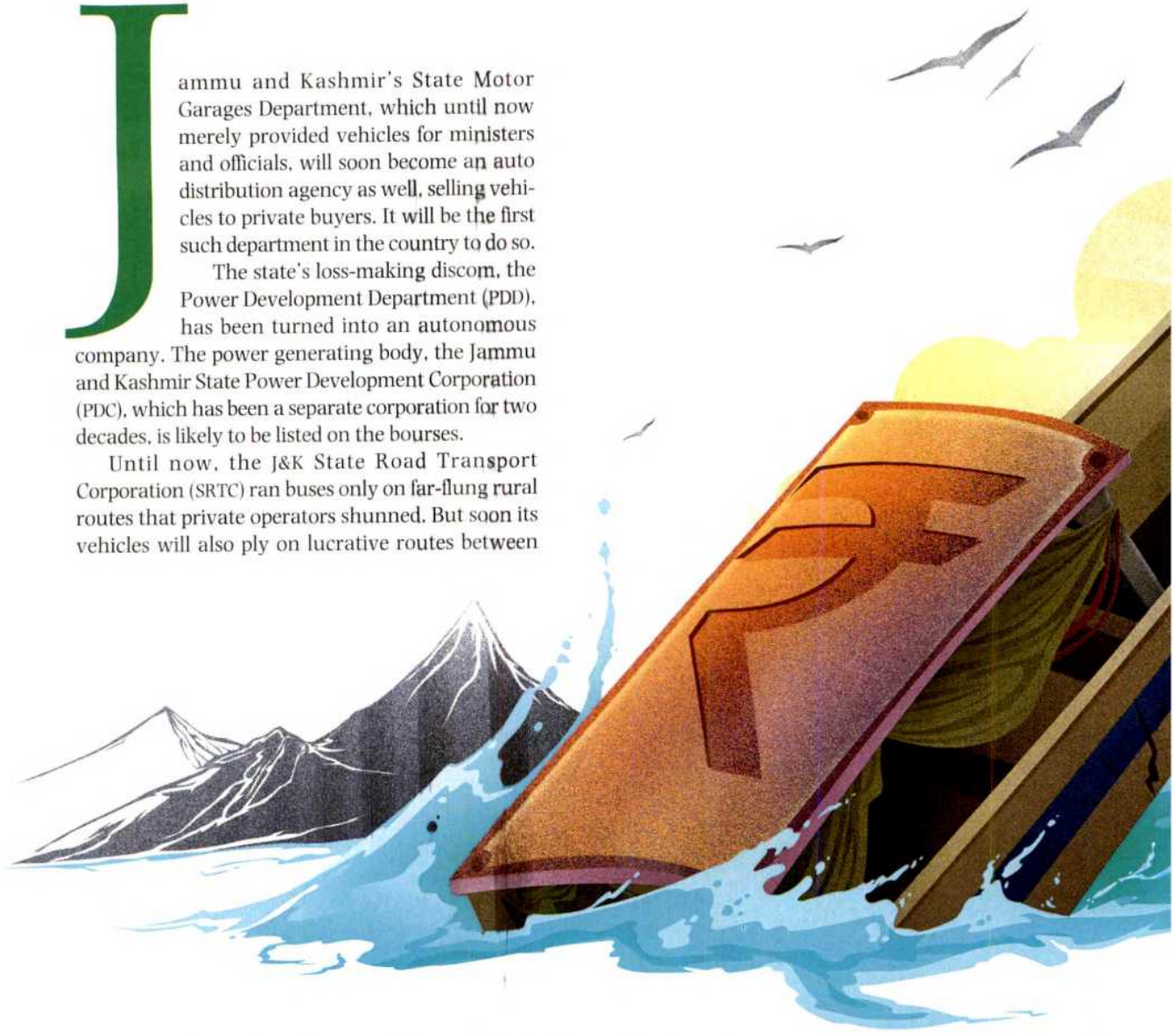
Kashmir Means Business

Jammu and Kashmir's State Motor Garages Department, which until now merely provided vehicles for ministers and officials, will soon become an auto distribution agency as well, selling vehicles to private buyers. It will be the first such department in the country to do so.

The state's loss-making discom, the Power Development Department (PDD), has been turned into an autonomous company. The power generating body, the Jammu and Kashmir State Power Development Corporation (PDC), which has been a separate corporation for two decades, is likely to be listed on the bourses.

Until now, the J&K State Road Transport Corporation (SRTC) ran buses only on far-flung rural routes that private operators shunned. But soon its vehicles will also ply on lucrative routes between



IN THE RED: A snapshot of the PSUs in J&K

23	3	₹2,698 crore
Number of functional state public sector units	Number of non-functional PSUs	Total accumulated losses of PSUs as of Sep 2014

Most of Jammu and Kashmir's PSUs depend on the state government for survival. But the new BJP-PDP regime now wants them to pull their own weight. By ISHFAQ NASEEM

AJAY THAKURI

₹922 crore	₹899 crore	₹447 crore	23,599
Accumulated losses of Power Development Corp	Accumulated losses of State Road Transport Corporation	Accumulated losses of J&K Industries Ltd	People employed in PSUs

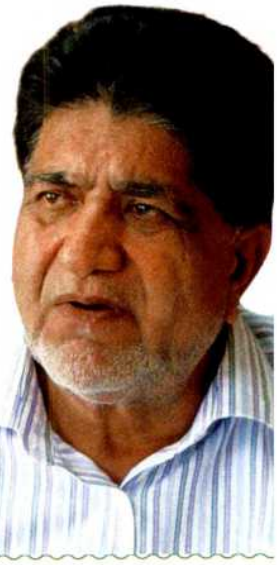
Source: Comptroller and Auditor General of India Report

towns, competing with private buses.

Rocked by a violent insurgency for the last quarter century, and irresponsible governance for long stretches as well, Jammu and Kashmir is in a financial mess. The Bharatiya Janata Party-People's Democratic Party (BJP-PDP) coalition government, which took over on March 1 this year, inherited liabilities of ₹9,000 crore. Most of the state's 26 public sector units (PSUs) have accumulated huge losses. (The only notable exception is J&K Bank, which earned a net profit of ₹508.60.5 crore in 2014/15.) But as the three instances cited above show, the new government has ambitious plans to bring about a recovery.

Heads of PSUs have been bluntly told they have to improve their financials or their units will be shut down or sold. They are being encouraged to look for private clients rather than depend solely on other PSUs or government departments for business. "The PSUs have been a drain on the state exchequer," says a senior finance department official. "The state government has to either close them down or turn them profitable."

The PDD, for instance, has been failing to meet its revenue target for the past three years. Against a target of ₹2,011.47 crore in 2012/13, it realised only ₹1,693.51 crore; the following year, estimating revenue at ₹3,344.60 crore, it achieved only ₹1,714.25 crore. In 2014/15, it set an even higher target of ₹3,508.62 crore, but managed less than in 2013/14, a mere ₹1,527.67 crore. The generation company PDC has an untapped goldmine at its disposal, since the hydropower potential of J&K, with its numerous mountain streams and rivers, at around 20,000 MW, is enormous. (Successive state governments have railed against the Central government-owned NHPC for providing J&K only 12 per cent of the power it produces from projects in the state free of cost.) The PDC estimates it can develop 9,344 MW of hydropower in the next few years – which would make the state power surplus – but to do so, it needs an investment of around ₹1 lakh crore.



Abdul Gani Kohli, Transport Minister, J&K Government

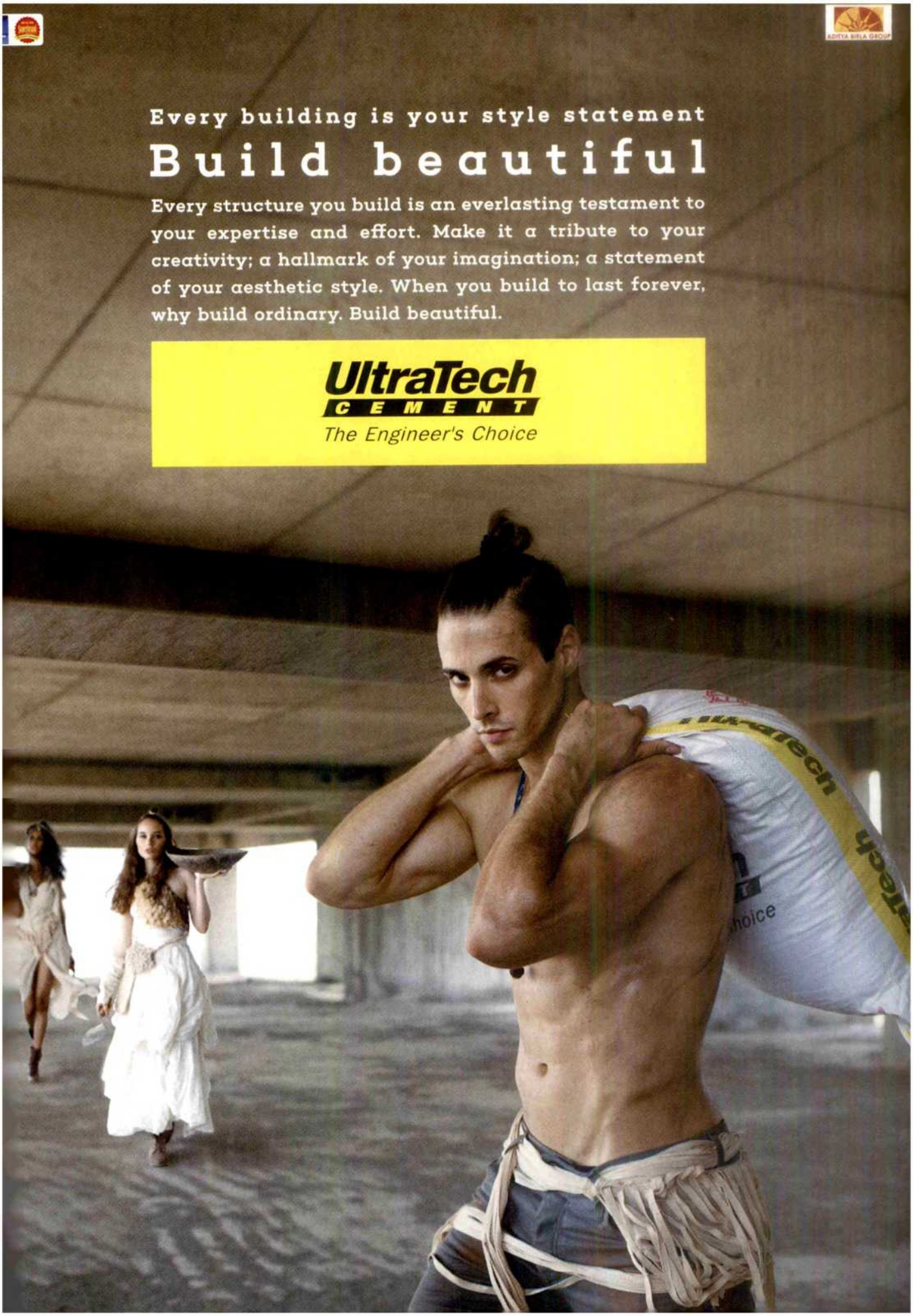
"The SRTC needs an overhaul, a new business strategy to become profitable"

The SRTC, too, incurred losses of ₹40 crore to ₹60 crore in the past three years. No doubt, there are extenuating factors. "The SRTC was started purely as a social obligation, to provide connectivity in remote parts of the state where there was no private transport available," says a senior official of the corporation. The company also lost 135 vehicles in insurgency-related incidents over the years. But now profit is the priority. "The corporation needs an overhaul and a new business strategy to become profitable," says Abdul Gani Kohli, J&K Transport Minister.

A recent report by the state's Directorate of Economics and

Javed Iqbal, Managing Director, J&K Industries

"The emphasis is on profitability rather than retaining employees. We are trying to increase sales by focusing on better designs and higher quality"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Kifayat Rizvi, Managing Director, SIDCO

"We may have to acquire more land to do business. Increased investment will, in turn, raise tax revenues and also push up exports"

Statistics (DES) has pointed out that the state's PSUs are doing so badly they have to depend on the government to pay employee salaries. "These units have to compete with the private sector, but the productivity of labour as well as capital is low," it says. Most of them have suffered from long strikes and damage to infrastructure during the militancy years. They are also largely overstaffed, having employed too many people for political considerations. "Fresh infusion of technology requires additional funds, which are not easily available. Under these circumstances, it has become necessary to carry out reforms ... at a fast pace," the report adds.

More changes are in the offing. Kashmiri handicrafts have always been popular, both within the state and outside, but government outlets selling these were few and in poor condition. The J&K Handicrafts Corporation is now repairing and renovating its showrooms not only in Jammu and Srinagar, but also in Delhi, Lucknow and Chandigarh. The restaurants and hotels owned by the J&K Tourism Development Corporation are in a similar state. Their running is now being outsourced to private players to cut down on operational expenses.

The J&K State Industrial Development Corporation (SIDCO) has faced losses because many local industrialists it gave loans to have defaulted. "We are working on a strategy to make SIDCO profitable," says Kifayat Rizvi, Managing Director. Proposals being considered include offering loans to businessmen from outside to set up units in the state. But there are hurdles. "If we invite people from outside, we need to provide them land to set up their units," adds Rizvi. "How do we do that? We may have to acquire more land to do business. Increased investment will, in turn, raise tax revenues and also push up exports."

J&K Industries Ltd (JKIL) is another sorry story. It began in 1963 with 15 units manufacturing textiles, woollen fabrics, leather and wooden goods. Today, only four units are functioning, while the PSU has accumulated losses of ₹447 crore. Production fell from goods worth ₹33.46 crore in 2002/03 to ₹11.09 crore in 2010/11, while sales declined from ₹17.23 crore in 2001/02 to ₹2.63 crore in 2010/11. "The losses are due to surplus staff, low productivity, obsolete machinery and non-availability of technical expertise," says a senior Industries Department official.

But JKIL, too, is trying its best to revive. "We have already brought down our annual loss from ₹29 crore to ₹5 crore in the last five years," says Javed Iqbal, MD, JKIL. "We could have reached break-even point last year, but the floods did us massive damage. Our machinery at the Rajbagh silk factory and the Bemina woollen mills – both in Srinagar – was badly affected." Echoing the SRTC official, he maintained that JKIL had been started as a social obligation, to provide jobs in a state sorely lacking employment avenues at the time. "But now the focus has changed drastically," he adds. "The emphasis is on profitability rather than retaining employees. We are trying to increase sales by focusing on better designs and higher quality."

Much of government recruitment from now on is also likely to be on contract. The new recruits will be annually rated and – in sharp contrast to permanent employees – will get increments only if their performance rating warrants it. Clearly, as J&K makes a concerted effort to get back on its financial feet, the success or failure of its public sector units will play a critical role. ◆

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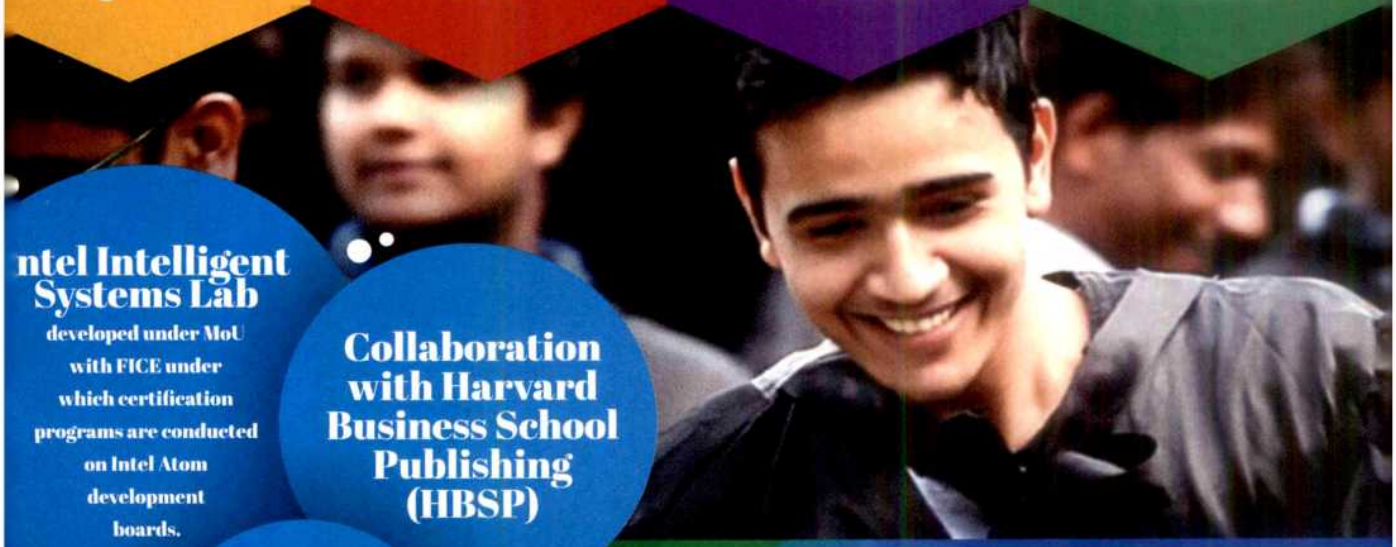

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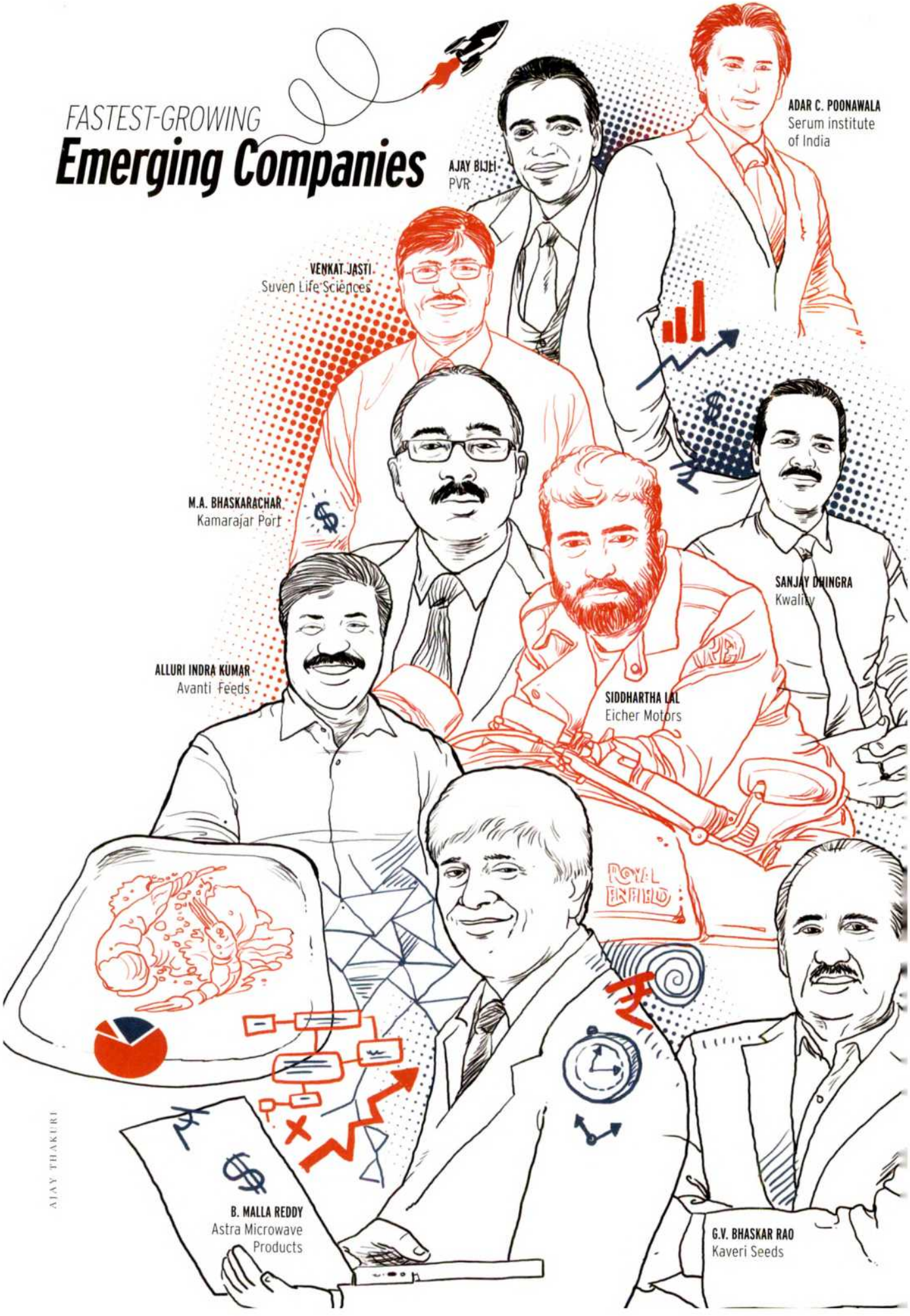


AJAY THAKURI

Growth Warriors

THE THIRD EDITION OF *BUSINESS TODAY'S* EMERGING COMPANIES SURVEY FINDS A NUMBER OF COMPANIES THAT GREW RAPIDLY EVEN IN A SLOWING ECONOMY

Motorcycle and cable manufacturing, and hybrid seeds and vaccines are hardly the kind of industries that you are likely to associate with scorching growth. Especially in the past four years running up to 2013/14 when the Indian economy slowed and policy-making gave way to policy paralysis.

But a handful of entrepreneurs had different ideas. They saw the glass as 'half full', rather than 'half empty'. For them, slowdown meant a huge opportunity in niches. And lack of growth meant readying the whole hog for an uptick. Nearly all of those who bucked the trend had a few characteristics in common: they didn't believe in the slowdown and built strategies to grow their business rather than protecting it from shrinking; they invested heavily in capacity increases for the future; and they identified pockets of growth in a depressed business environment. Generally, they thumbed their nose at the negativity swirling around them.

When *Business Today* embarked on this third edition of the emerging companies survey, we dived in, unsure whether we would really find good numbers – and quality – of companies that swam against the tide. But the initial numbers were astounding!

The companies that finally made it our shortlist clocked an average growth of 24 per cent over a three-year period. That is just the average for several hundred companies. As we dived deeper across different revenue categories (see methodology on page 106), we found companies that grew at over 50 per cent. The fact that this study included both listed and unlisted companies meant we covered practically the entire universe of companies with sound fundamentals.

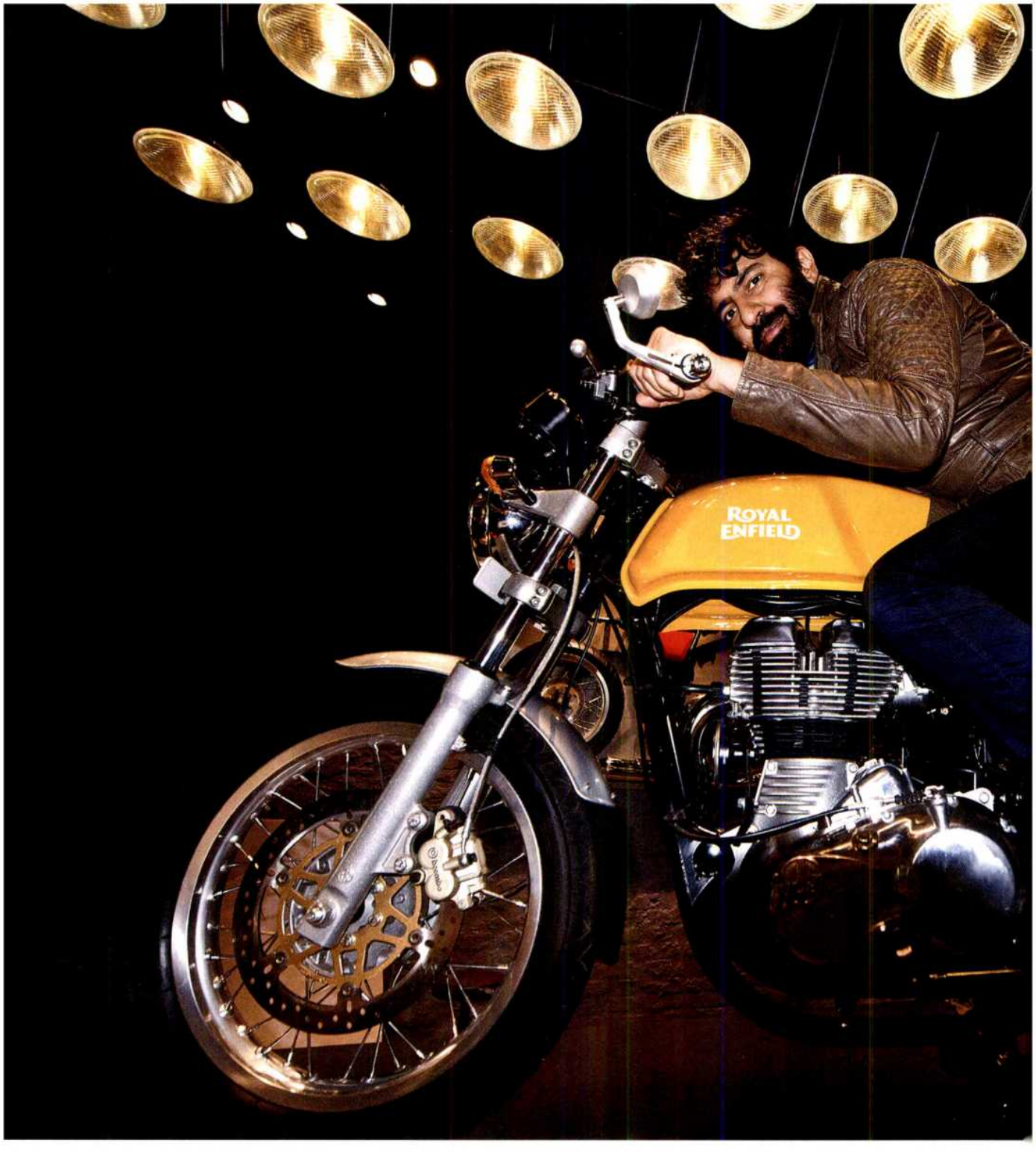
The results of this exercise prove that where there is a will, there is a way. That when strategies are in place, growth can't be far behind. We found a dazzling array of companies rocketing up the growth curve, in sectors as diverse as hybrid seeds to feed for shrimps; defence component manufacturing to multiplexes to ports and vaccine manufacturing.

Turn the page to read their fascinating stories.

Full coverage of the Emerging Companies package at businesstoday.in/emergingcos2015

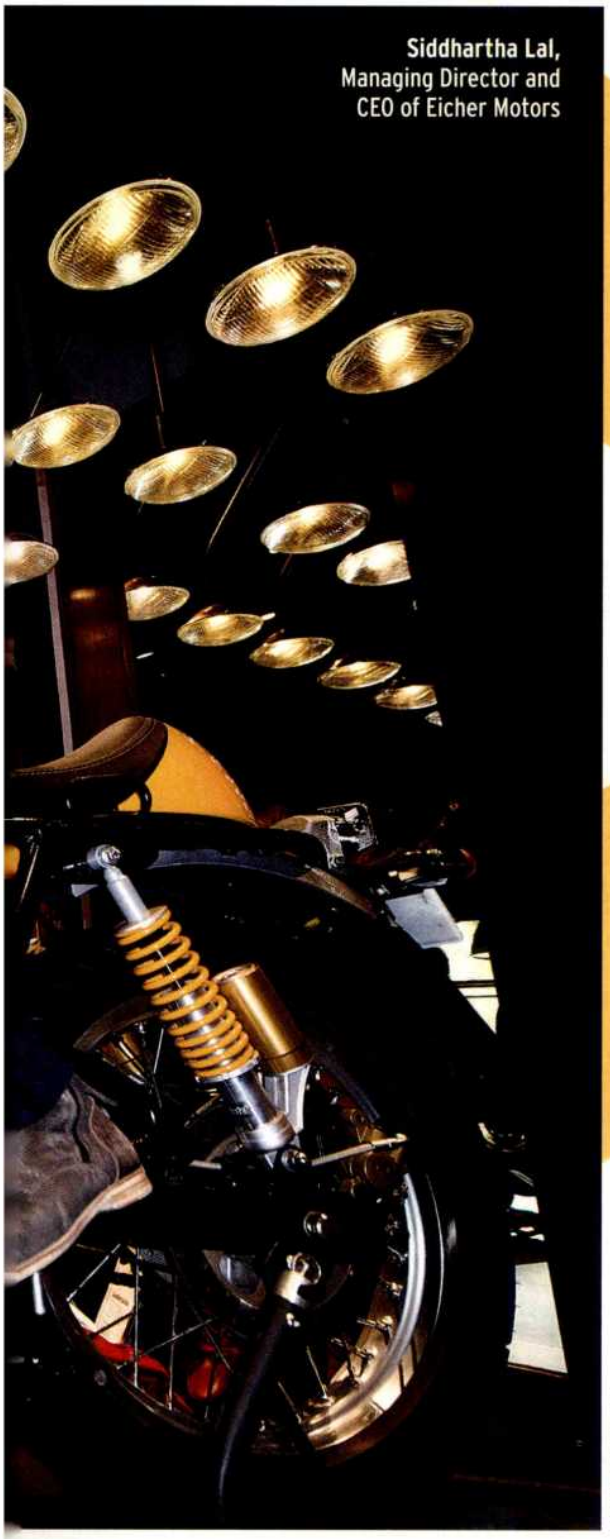
FASTEST-GROWING

Emerging Companies



EICHER MOTORS
RANK **1**

GROUP: STANDALONE COMPANIES
SEGMENT: REVENUE ₹3,000-6,000 CRORE



Siddhartha Lal, Managing Director and CEO of Eicher Motors

VIVAN MEHRA

Riding the Niche

SIDDHARTHA LAL-LED EICHER MOTORS RIDES THE ICONIC ROYAL ENFIELD MOTORCYCLES ON A PATH OF HIGH GROWTH.

By ALOKESH BHATTACHARYYA

In the past four years, the motorcycles market has grown 4.5 per cent on average in terms of units sold. Siddhartha Lal-led Eicher Motors – makers of Royal Enfield motorcycles – has averaged 56.4 per cent. What has the company done different?

To start with, it has a big advantage – its 350-500cc cruiser motorcycles are unique in India. The market is dominated by staid, 100cc-thereabouts commuter bikes, and slightly bigger performance bikes, also called "sports" bikes. Royal Enfield bikes are heavier, have a vintage feel with a modern touch. And that ancient, guttural rat-a-tat-tat thump from the engine gives them a classy, retro feel.

More importantly, they have a ready, niche market that is yet democratic in customer profile. Buyers range from the regular – the driver of one of Lal's friends, for instance – to high-flying executives, motorcycling aficionados, adventure riders, college-goers. "Lal has created a niche of his own," says auto expert Tutu Dhawan, 63, a former national car rally champion, who is now in the business of restoring old automobiles. "For the first 30-40 years, Royal Enfield was an ordinary company. All credit goes to Siddhartha Lal for transforming it into an iconic, cult brand."

Consider this: Eicher Motors owns barely three per cent of India's motorcycles market. But the company almost com-

pletely dominates most segments it operates in. That has translated into hefty margins – operating profit margin of 28.04 per cent and net profit margin of 18.44 per cent in 2014/15. Comparatively, market leader Hero MotoCorp, which has 53 per cent share in motorcycles, has margins of 14.07 per cent and 8.65 per cent, respectively (of course, Hero has several times Eicher's revenues).

It was not always like that. In 2002-2007, the motorcycles market was clipping at 18 per cent, while Eicher grew barely five-six per cent. Thereafter, Eicher sales started to perk up, even as the overall market slowed down.

The tipping point for Eicher came in 2010, after it launched the Classic motorcycle. But Lal had wrought significant changes before that to make the company more focused. "Over the decade before 2010, we put in a lot of effort in manufacturing, quality, parts availability, distribution, retail outlets, to bring them up to a decent level," says a relaxed Lal, 41, sipping coffee in the company-owned showroom at the upscale Khan Market in New Delhi. "We did a lot of rides and events and activities, so people started looking at the brand a little differently from, say, the 20th century where it was a nice brand, but for my uncle, not for me."

REVENUE:
₹3,445.73 crore

NET PROFIT:
₹558.65 crore

THREE-YEAR CAGR:
61.29%

THREE-YEAR AVERAGE TOPLINE GROWTH:
61.55%

EICHER OWNS 3% OF INDIA'S BIKE MARKET. BUT IT DOMINATES MOST SEGMENTS IT OPERATES IN

The brand, in a way, was completely overhauled, with focus on adventure and leisure riding. Eicher advertised practically only in auto magazines, and conducted several Royal Enfield riding events – The Himalayan Odyssey, Tour of Bhutan, Nepal and Tibet, Tour of Rajasthan and an annual festival, Rider Mania in Goa – that accentuated the "feel" of Royal Enfield as a stylish yet robust motorcycle that lasts the distance.

Discounts were done away with. The front end was overhauled – showrooms were made to look more like lifestyle retail outlets, selling bikes as well as Royal Enfield-branded clothing and accessories. Smarter sales staff was employed. A company spokesperson says these helped get more walk-ins and more bookings.

On the product front, Eicher killed its earlier engine platforms. "A lot of the reliability, durability issues we had were related to the engine platforms," says Lal. It earlier had cast iron engines called Pre-Unit Construction Engine. In 2009, the company introduced the UCE (Unit Construction Engine), an all-aluminium, lighter, more efficient engine. Signature characteristics of Royal Enfield – such as the thumping sound – were retained. Royal Enfield now sports this engine platform across all motorcycles.

Then, older Royal Enfields had brakes on the wrong side, which was fixed. Electric start and disc brakes were brought in. All these aspects helped relate the modern Royal Enfield to the young generation.

In 2009-end, the Classic motorcycle – 350cc and 500cc – was launched. It was a completely new bike, partly inspired by a 1940s Royal Enfield, the J2, with a reasonable price tag of ₹1-1.25 lakh. It was a big hit. "The stores were already nice, people were already accepting of the brand, we had removed a lot of the hurdles why people didn't want to ride a Royal Enfield," explains Lal. Later launches of the Thunderbird cruisers, Bullet 500cc (in addition to the older 350cc) and the Continental GT fuelled the growth curve.

"Royal Enfield has been able to relate its products to its customers' aspirations and expectations," says Abdul Majeed, Partner at Price Waterhouse. "People who buy Royal Enfield already have cars. These are people in their early 30s to early 40s. For them, it is a way to de-stress."

The Classic 350cc remains the company's top-selling model. The 350cc market, at 290,000 units, is almost nine times the size of 500cc. While the difference in EMIs between the two isn't much, Eicher says most people in India own commuter bikes of 100-150cc, and those looking to upgrade naturally go for 350cc instead of 500cc. Dhawan has a different explanation: "500cc bikes have higher fuel consumption, and they are heavier and more difficult to manoeuvre."

It also helped that in 2010, Lal brought in a professional CEO Vinod Aggarwal to run his commercial vehicles business – a joint venture called Eicher-Volvo – and decided to focus almost entirely on Eicher. "In 2010, personally I'd had it with running a CV company," Lal had told *BT* in an interview last November. "I know the business, the ins and outs. I spend a few days in a month on it, but not more than that. My day job is motorcycles."

Going ahead, Lal will need to be busy at his day job to

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FASTEST-GROWING
Emerging Companies

fend off rising competition. "If you look at Royal Enfield's growth, people (competitors) are looking at that segment," says Majeed. At the same time, he says Royal Enfield has been able to maintain its uniqueness, so competitors, too, need to bring in a unique proposition to compete.

Currently, Lal has no competition, but that could change. Harley-Davidson and Triumph, world leaders in cruiser bikes, have been doing well in India. Harley's sales climbed 140 per cent from the year before to 4,641 units in 2014/15. And Triumph grew almost 400 per cent to 1,326 units in the same period.

GROWTH DRIVERS: New motorcycles, new engine, overhauled front-end, increased demand

CORE STRENGTHS: Unique, iconic 350-500cc cruiser bikes like Bullet and Classic

FUTURE PLANS: To launch at least one new bike or platform every year for next few years; expand distribution network

CHALLENGES: Emerging threats from Harley-Davidson, Triumph; staying true to customer aspirations

GOAL: To dominate the mid-sized bike market worldwide

Significantly, in 2014/15, Harley sold more than 3,000 units of the 750cc Street, its smallest, cheapest (₹4 lakh plus), lowest-capacity bike. That is more than the 2,800-odd units clocked by the Royal Enfield cafe racer Continental GT, despite Street being twice as expensive. There has been speculation about Harley preparing a 500cc Street, but it could not be confirmed, as Harley-Davidson India declined to speak with *Business Today* for this story.

Dhawan, however, is confident of Royal Enfield's ability to match the big guns. "Royal Enfield's pricing, technology and availability of spares have improved vastly," says Dhawan. "They are much more competitive compared to Harley-Davidson and Triumph." He adds that unlike a Royal Enfield, you can't take a Harley or a Triumph to work every day. Plus, roadside mechanics can open up a Royal Enfield for impromptu repairs, which isn't possible with Harley or Triumph.

A power-packed challenger could emerge if Bajaj Auto, backed by its manufacturing prowess and huge distribution network, brings in a higher-calibre version of its 220cc cruiser, Avenger. The company, however, in a note to this magazine, declined to comment on this possibility, and said that it keeps launching new products from time to time and communicates about the same at the appropriate time.

Meanwhile, Hero MotoCorp has launched a cafe racer version of its highest selling motorcycle, the Splendor. A company spokesperson says today's youth are looking for stylish commuter and entry-level premium bikes that would also be inexpensive and give good fuel economy. The Splendor Pro Classic (₹50,000+) is tailored to that trend, and aimed at giving a taste of cafe racing to people who otherwise couldn't afford such motorcycles (albeit at 100cc it doesn't directly compete with Continental GT).

On his part, Lal is geared for battle. He expects to produce more than 450,000 motorcycles this year, compared to 336,000 last year. "Our order book is growing very fast," he says. "Visibility is increasing, saturation is extremely far away." Distribution is growing, too: the current 400 showrooms will go up to 500 by end-2015.

The company is developing two new platforms, though there are no plans for a hybrid model. "Every year over the next few years, we will launch at least one new motorcycle or platform," says Lal. He says he will stick to the 250cc-750cc segment. "I am expecting lots of competition," says Lal. "The market of 250cc+ will grow – who knows, three times, five times – in the next few years. If we can maintain our thought leadership over the years, we'll be fine."

Also, the overall motorcycles market is moving up at snail's pace, so what happens when the market takes off? Dhawan thinks Eicher's sales won't be affected simply because of the uniqueness of its products. On its part, Eicher says that in developing countries, a significant number of young consumers owning 100-150cc bikes are keen to move up to products that are more fun to ride, products that the company offers.

Even as competition increases in India, Eicher is also betting big on exports. The US, UK and Europe are big focus areas, because Lal believes there are customers there who want to move away from the existing offerings of extremely heavy and powerful machines, to the middle-weight, leisurely Royal Enfields. It will target Latin America in a big way in future – it has already entered Colombia – and Southeast Asia. So far, the company's strategy seems to have worked well, with exports climbing 45 per cent in 2014/15 to 7,115 units. "We sold more than 1,000 bikes in the US last year," says Lal. His avowed aim is to domi-

nate the mid-sized motorcycle market worldwide.

The bigger challenge would be to continue to stay true to customer aspirations. A Tutu Dhawan would want nothing to change: "If I were Siddhartha Lal, I would go on. When you are getting money out of peanuts, why should you invest megabucks?" An Abdul Majeed, on the other hand, would want some changes: "Royal Enfield should not become complacent. They need to look at alternative fuels. They need to think through on the technology front also. In three-four years, the customer will not be the same." A prospective buyer, Maninder Singh Bhandari, 28, a gym trainer in Delhi and a fan of Royal Enfield, has decided to buy a pre-2010 second-hand Bullet because his friends, many of who drive Royal Enfields, have advised him that the new bikes are *bakwaas* (useless).

Admittedly, you can't please everyone, but Lal says he is guarding against complacency. "Complacency concerns me; it's one of the pitfalls of success," he says. "But right now, the flavour in the team is not of relaxation. There is a fire burning in terms of improvements."

Motorcycle aficionados will hope the fire keeps burning. ▶

Adar C. Poonawala
CEO, Serum Institute of India

SERUM INSTITUTE OF INDIA

RANK

2

REVENUE:
₹3,636.21 crore

NET PROFIT:
₹1,741.41 crore

THREE-YEAR CAGR:
51.69%

THREE-YEAR AVERAGE TOPLINE GROWTH:
52.19%

Booster Dose

SERUM REAPS THE FRUIT OF ITS DECISION TO DOUBLE CAPACITY AT A TIME OF GLOBAL DEMAND SLUMP.

By P.B. JAYAKUMAR

FASTEST-GROWING

Emerging Companies

GROWTH DRIVERS: Doubling of capacity at the time of global demand slump that helped it down the road; WHO orders

CORE STRENGTHS: Research & development; ability to supply vaccines for UN programmes at low prices

FUTURE PLANS: ₹1,000 crore investment to develop new facilities for launching more products

GOALS: Develop more vaccines, invest in research and development

The numbers say it all. Serum Institute of India, the world's second-largest manufacturer of vaccines, sells about 1.3 billion doses a year. About 65 per cent children in the world have received at least one vaccine made by the company, whose products are available in as many as 141 countries. And last, but not the least, its profits are more than 40 per cent of its revenues.

All this is no small feat for a company that had a modest beginning way back in 1966. Its stupendous growth, especially after it more than doubled its capacity around 2010, has put the founder, Pune-based Cyrus Poonawala, and his son, Adar C. Poonawala, among the poster boys of the Indian rich with their private jets, luxury cars and race horses. Cyrus Poonawala's current wealth is now pegged at over $6.2 billion.

Serum is a perfect example of a venture that had a slow start but over the years managed to build a base for a strong takeoff. In spite of its leadership position, till a decade ago, its revenues were in the range of ₹600-700 crore a year and its products sold in just 30-40 countries. This changed a few years ago.

Serum is reaping the fruits of a decision its promoters took in 2007/08, when global markets were collapsing and companies were deferring investments. At a time when the outlook for vaccines was not good, the company, sitting on a huge cash pile, decided to increase capacity from 600 million doses to 1.1 billion doses a year.

Different Market

A World Health Organization (WHO) report says the global vaccine market rose from $5 billion in 2000 to $24 billion by 2013 and is projected to rise to $100 billion by 2025. Multinational drug giants such as GSK, Sanofi Pasteur, Pfizer, Merck and Novartis control 80 per cent of this. Many of their products have sales of over a billion dollars, more than the annual revenue of Serum. For example, in 2014, GSK sold only 800 million doses but earned revenue of £3.2 billion.

In this difficult market, Serum sells vaccines for public-private funded immunisation programmes run by agencies such as WHO, UNICEF and Pan American Health Organisation (PAHO). This market is much smaller. For instance, in 2014, UNICEF procured 2.71 billion doses for supply in 100 countries, valued at $1.48 billion. In 2011, the WHO estimated total purchases by UNICEF and PAHO at $1.43 billion, around seven per cent of global vaccine sales.

"Global drug multinationals generally do not invest heavily in research and development and manufacturing of such low-cost vaccines. They focus on high-value vaccines for lifestyle disorders like cancer and diabetes that have a big market," says Dr Davinder Gill, Chief Executive Officer of MSD Wellcome Trust Hilleman Laboratories, a vaccine research and development organisation funded by Merck and the Wellcome Trust.

That is why Serum's major competitors in this area are Indian. These include Bharat Biotech, Biological E and Shanta Biotechnics (now part of Sanofi). There are a few Chinese companies as well, besides some biopharmaceutical companies from Indonesia, Cuba and Latin America.

However, entry barriers are high, say experts. This is because companies have to make huge investments to master complex technologies. But once production starts, raw materials are cheap. Further, a good track record is a must to qualify for global tenders.

"It is not easy for a new player to start making vaccines. It requires seven to 10 years of research to take a vaccine to the market," says Dr Manoj, a scientist and project leader with Hilleman Laboratories, which is developing an advanced Hib vaccine.

Growth Attempts

Adar, who joined the company in early 2000s, has registered Serum's products in almost all countries. To fuel growth, the Poonawalas thought of an acquisition. Sensing a lack of quality private manufacturers in the

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country, they offered about ₹1,500 crore for an 80 per cent stake in a rival, Hyderabad-based Shantha Biotechnics, which had revenue of ₹530 crore in 2010. But in 2008, its owner, France-based Merieux Alliance, sold it to French multinational Sanofi for ₹3,018 crore.

Interestingly, Shantha indirectly helped Serum increase sales. Within a year of the acquisition, it ran into trouble when the WHO cancelled its pre-qualification bid for supply of the five-in-one vaccine to UNICEF, an order it had won in 2008. UNICEF redirected the order, worth over ₹1,500 crore, to Serum. Shantha, which invested heavily in plant and products, was able to win back the WHO's confidence only last year. It restarted exports from October 2014.

Serum had to wait till 2012 for its first acquisition. In July 2012, it bought a 100 per cent stake in the loss-making Netherlands government-owned Bilthoven Biologicals. It invested €70-80 million in Bilthoven over the next three years to upgrade capabilities. The acquisition provided it access to the Injectable Polio Vaccine (Salk) technology, available in only three plants globally, besides a manufacturing base in Europe and access to developed markets. In March 2014, Bilthoven and Serum substantially reduced the price of Injectable Polio Vaccine to bag orders for UNICEF's Global Polio Eradication Initiative Endgame Strategic Plan 2013-18.

In 2011, Serum also joined hands with Merck to develop and commercialise a pneumococcal conjugate vaccine for both emerging and developing countries. In May, it tied up with Cipla to market its flu vaccine, Nasovac-S, in India. So far, Serum has invested over ₹3,000 crore in manufacturing and research. It is investing another ₹1,000 crore to develop new facilities for launching more products.

Naturally, Serum is likely to be a potential candidate for takeover for multinational pharmaceutical companies. Recently, a tie-up with Cipla was interpreted by the media as harbinger to a possible merger or takeover and the Poonawalas had to clarify they are not "selling" their prized possession. Adar Poonawala, who is now the company's chief executive officer, had denied reports a couple of years ago that many global majors were looking to buy Serum. "God has been kind to us," he had said at the time. "We have enough reserves. Hence, we never felt any reason to sell out." ▶

3 KWALITY RANK

Milking Success

Sanjay Dhingra
Chairman and Managing Director, Kwality

STRONG INSTITUTIONAL SALES HELP KWALITY GROW CONSISTENTLY IN THE FRAGMENTED DAIRY SECTOR.

By DIPAK MONDAL

GROUP:
INDEPENDENT COMPANIES
SEGMENT: REVENUES
₹3,000-6,000 CRORE

SHEKHAR GHOSH

The dairy segment in the country is unique. In spite of being a ₹5,00,00-crore industry, it is dominated by unorganised players, so much so that the largest company (Amul) accounts for just four to five per cent of the market. As a result, it offers ample scope to organised players to grow.

Delhi-based Kwality Ltd has made good use of these opportunities. The company, though it accounts for just one per cent market share, has managed to grow its revenue eight-fold since March 2009, clocking a compounded annual growth rate of 51 per cent.

"We have been growing at a scorching pace over the last few years. This is a huge market and if you adhere to some basic principles you can sell whatever you produce. This is what we have done. We have a sound milk procurement strategy and a strict view on quality of products. This has helped us achieve high growth," says Chairman and Managing Director Sanjay Dhingra.

The company's stellar performance is the result of a well-thought-out strategy implemented over the last four-five years. It was already supplying products to fast-moving consumer goods (FMCG) and dairy companies such as Amul and Mother Dairy. In 2010, it entered retail with the launch of its own brand, Dairy Best. It started with ghee and by 2012 expanded the product range under the umbrella to curd, pouched milk and skimmed milk.

"Retail has been growing at 25-30 per cent a year. In 2014/15, the revenue from the retail business was ₹1,600 crore, up from ₹1,200 crore in the previous year," says Dhingra. The retail business today accounts for 25-30 per cent revenue.

In 2011, the company set up a wholly-owned subsidiary, Kwality Dairy Products-FZE, in a free trade zone of the United Arab Emirates after it got a licence for dealing in milk-based products. Exports got a boost with the removal of ban on export of skimmed milk powder, whole milk powder and dairy whitener in 2012. Today, the company exports dairy products to around 30 countries across Asia and Africa. In 2014/15, it earned ₹530 crore from exports, 190 per cent more than in the previous year.

The toughest part of the business is procurement

Interview with Sanjay Dhingra of Kwality at businesstoday.in/emergingcos2015-kwality

REVENUE:
₹4,581 crore

NET PROFIT:
₹129 crore

THREE-YEAR CAGR:
41.76%

THREE-YEAR AVERAGE TOPLINE GROWTH:
42.39%

IN 2014/15, KWALITY EARNED ₹530 CRORE FROM EXPORTS, 190% MORE THAN IN 2013/14

of milk from farmers. Since 2012, when it launched its milk brand, it has built a strong procurement network of 2.85 lakh farmers in 4,000 villages and three states. It has also opened 20 chilling centres. The company had one milk-processing unit in Palwal, Haryana, till 2010. Since then, it has added five more. It handles 33 lakh litres milk every day.

Turnaround Story

Kwality Ltd, formerly Kwality Dairy Ltd, was set up in 1992 by the then promoters as a backward integration unit of the ice cream business. In 1995, the owners sold the ice-cream brand to HUL. After this, they lost interest in the dairy business, too.

Sanjay Dhingra and his family, who were then distributors of edible oil and were outsourcing ghee for a brand called Indana, were looking to set up their own unit near Delhi. Kwality Dairy's Palwal plant fitted their scheme of things. In 2002, they decided to take over the company. In 2003, they entered into a tie-up with Amul for providing pouched milk. "That's how we got a first-hand experience of the milk business. The relationship with Amul ended only in 2013," says Dhingra.

After taking over Kwality, the Dhingras expanded the company's product portfolio and milk-processing capacity. Today the company has processing units in six cities in three states – Haryana, Uttar Pradesh and Rajasthan. Its portfolio includes ice cream, ghee, skimmed milk powder, pouched milk, curd, *chhaach*, paneer and butter.

Kwality's primary strength is its institutional business, which accounts for 75 per cent revenue. It supplies bulk milk products (milk powder, ghee, curd, etc.) to well-known FMCG companies such as Britannia, Hindustan Unilever, ITC, Cadbury's and Mother Dairy.

"The institutional business gives it an edge over others with a largely retail client base. It does not have to negotiate with dealers every now and then. Milk, being a perishable good, has be consumed within a short period or there's nothing you can do about the loss," says Prakash Diwan, Director, Altamount Capital Management.

He says that unlike many other dairy companies, which have tried various models such as opening milk booths and are bleeding because of the cost incurred in such expansion, Kwality has been circumspect about such expenditures.

Growth Strategies

Kwality sees retail segment as a key driver of growth. It currently accounts for 25 per cent revenue.

GROWTH DRIVERS: 25 per cent growth in retail business, surge in exports and addition of five more processing plants after 2010

CORE STRENGTHS: Focus on quality, tie-ups with top FMCG companies (institutional sales account for 75 per cent of revenue)

FUTURE PLANS: Increase in retail sales, where margins are higher, and expansion outside North India

GOALS: Upgrade of facilities, direct milk procurement so that it can focus more on quality

"The market for value-added products such as flavoured milk and packaged cheese is expanding. They may not significantly add to our revenue in the near term but command higher margins," says Dhingra.

The company is also planning to increase direct procurement of milk from farmers. At present, a bulk (85 per cent) of the procurement is through aggregators. "Quality can be an issue with aggregators. However, as we expand our retail business, we must also increase direct procurement from farmers," says Dhingra.

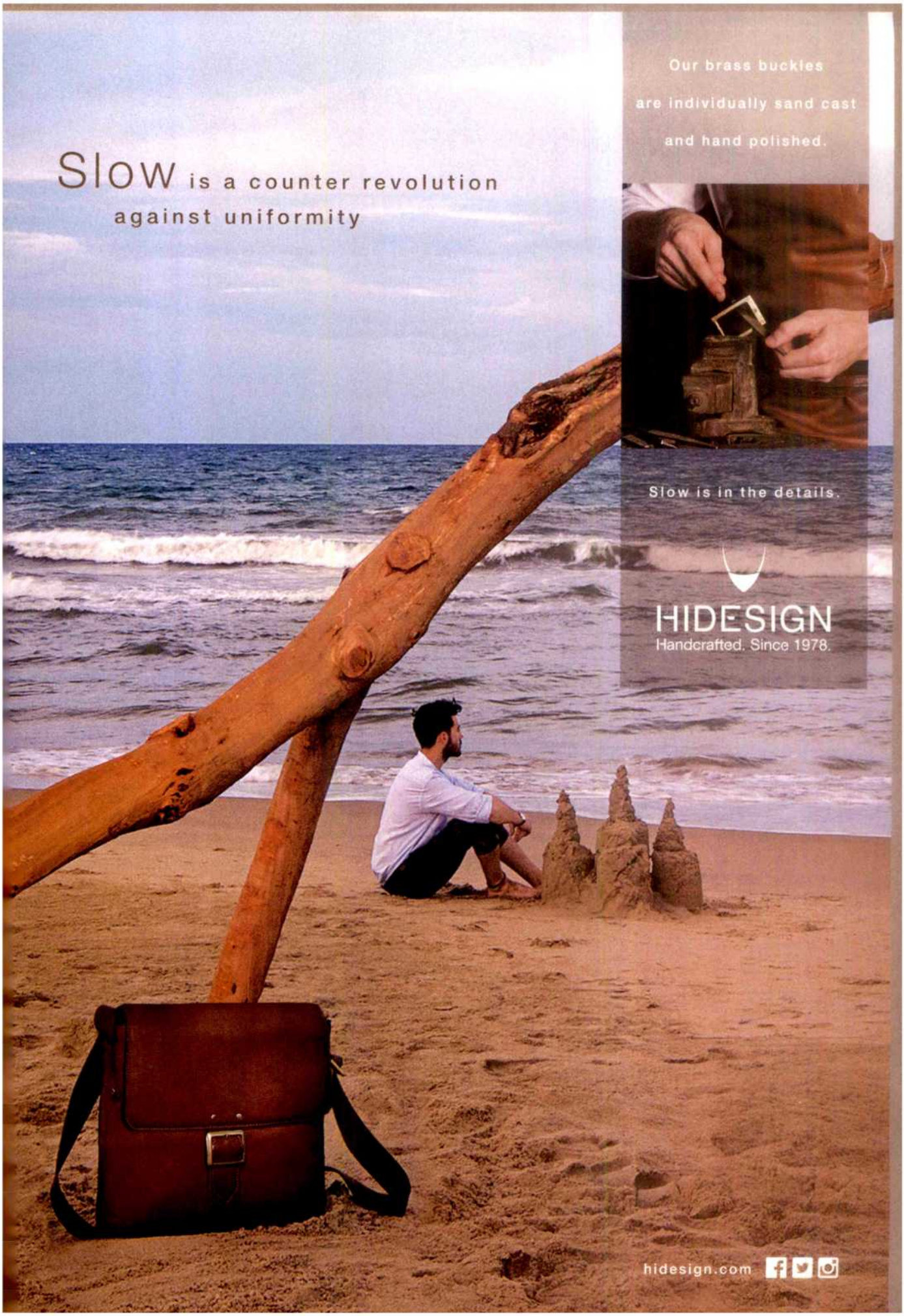
Kwality, which mostly operates in north India, plans to spread its reach across the country. "We plan to launch products that have a shelf life of between three and six months so that we can go pan India," he says.

Challenges and Opportunities

The dairy industry is dominated by unorganised players. It largely works on the cooperative model with limited participation from private players.

Despite this, the industry has been growing at a quick pace. According to research firm International Market Analysis Research & Consulting Group, the dairy market size is likely to expand at 14 per cent a year between 2015 and 2020.

"There is immense scope for an organised player to grow in the industry if one can upgrade processing units with latest technology and build a good procurement network," says Dhingra. ▶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Trawling for Opportunities

AVANTI FEEDS HAS LEVERAGED GROWTH IN SHRIMP DEMAND OVER THE YEARS.

By E. KUMAR SHARMA

"In five years from now, we hope to become a billion-dollar player," says Alluri Indra Kumar, the 53-year-old Chairman and Managing Director of Avanti Feeds, a manufacturer of prawn and fish feed and a shrimp processor and exporter.

Kumar says Avanti – which has around 39 per cent share of the Indian fish and prawn feed market – is planning to invest ₹300 crore over the next one year to increase capacity. At present, it is unable to meet demand from farmers.

"Not only will we expand our current line of activity in feed manufacturing, we are also setting up a hatchery as backward integration with our shrimp processing business apart from building a state-of-the-art shrimp processing plant in Andhra Pradesh over the next one year," Kumar tells *Business Today* sitting in his functional office at Somajiguda in Hyderabad. Avanti is building these with its collaborator, Thai Union, the $5-billion Thailand-based frozen seafood company that owns a 25 per cent stake in Avanti.

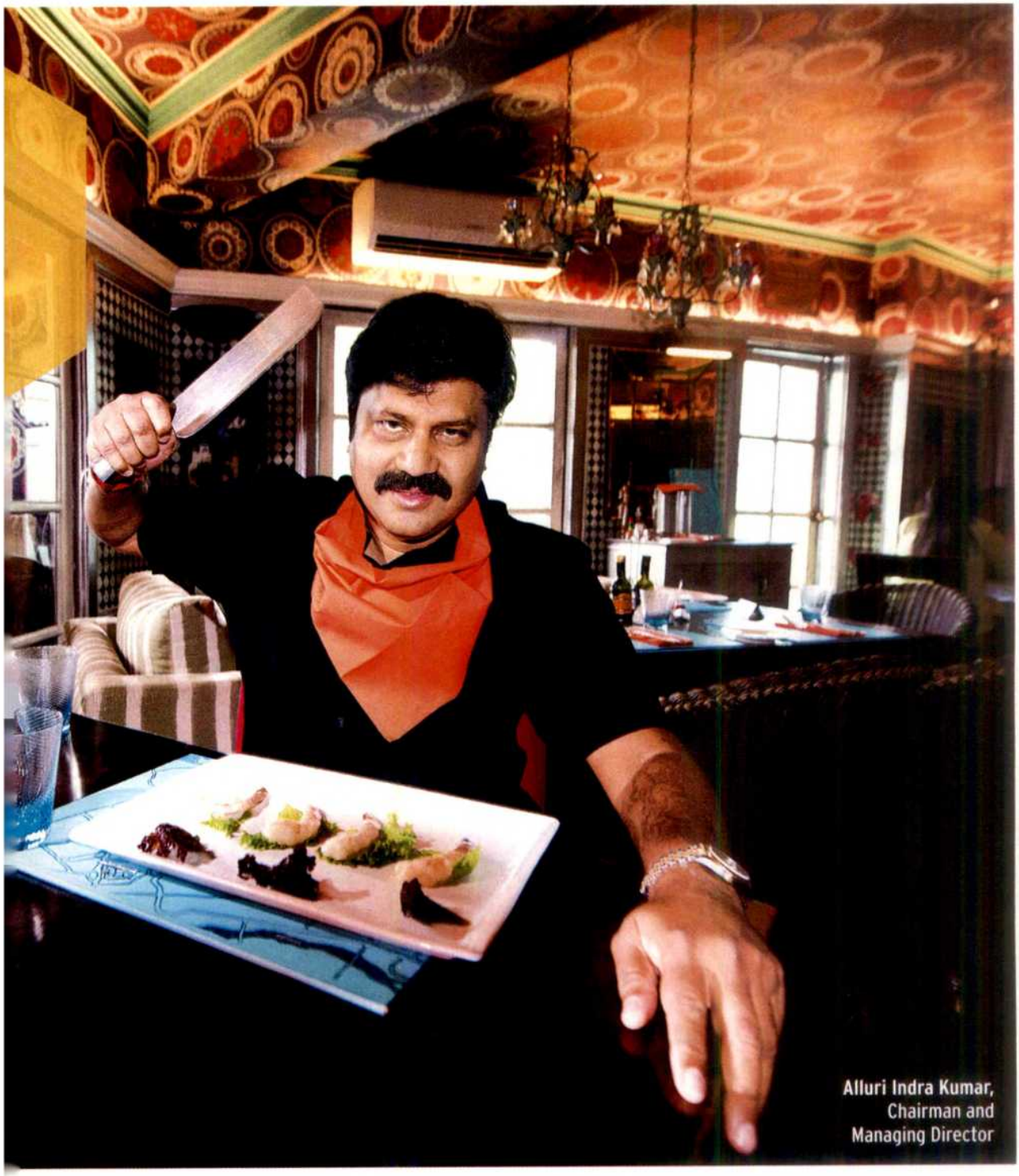
Kumar is fishing around shrimps for a reason. "For the fourth year in a row, there has been an increase in shrimp culture in terms of both water spread and stocking density. This has been mainly due to the success of Vannamei, a high-yield shrimp variety the government cleared for production in 2009," he says.

REVENUE:
₹1,135.12 crore

GROUP: STANDALONE COMPANIES
SEGMENT: REVENUE ₹1,000-3,000 CRORE

AVANTI FEEDS

RANK 1



Alluri Indra Kumar, Chairman and Managing Director

VIVAN MEHRA

NET PROFIT:	THREE-YEAR CAGR:	THREE-YEAR AVERAGE TOPLINE GROWTH:
₹69.69 crore	75.03%	75.29%

FASTEST-GROWING
Emerging Companies

In the fish and prawn feed market, the market leader in India is Thailand-based CP (Charoen Pokphand) Group. It would have around 41 per cent market share, he says. "We are a close second. One of the reasons we are expanding is that at times we are not able to meet demand for our products," he says. Avanti earns 70 per cent revenue from the feed business. The rest comes from shrimp exports. "We want to earn 60 per cent from feed and the rest from exports in another three years," he says.

Avanti produces shrimp for markets in the US, Europe, Southeast Asia and West Asia. It has a shrimp processing and export unit in Gopalapuram near Ravulapalem in East Godavari District of Andhra Pradesh.

GROWTH DRIVERS: Pick-up in the shrimp business, investment in capacity addition to prepare for likely rise in demand

CORE STRENGTH: Strong partnership with a global leader, R&D and focus on feed formulation

FUTURE PLANS: To expand feed operations, invest in state-of-the-art shrimp processing and set up a hatchery

GOAL: To become a billion-dollar company in five years

Kumar, who lives on the campus of one of his three feed units in Kovvur in West Godavari District (the fourth is in Valsad in Gujarat), says he has invested and planned systematically since 2007. "In the last four years, we have doubled our feed capacity to three lakh tonnes per annum," he says. That is a long way from the 12,000 tonnes that Kumar, a chemical engineer, started out with in 1992. The next year Avanti's shares started trading on exchanges. In terms of manpower, says Kumar, the company is 2,000-people strong as against 100 to 150 people it started out with.

But the journey has been anything but smooth. "Soon after we started, the aquaculture sector had a shock. Over the years, many big corporate players collapsed. We survived as we were working with smaller farmers too. During bad times, we worked very hard. For example, it was during this time that we did a lot of extension work with farmers, providing them training and explaining the best practices, which we do even now."

In 2002, Avanti began collaborating with Thai Union, which also took a stake in the company. Its revenue was ₹73 crore in 2008/09. The next year, it touched ₹102 crore. Since then, it has been growing rapidly. "We have been growing at least 30 per cent every year since 2009," says Kumar. The company ended 2014/15 with revenue of ₹1,785.27 crore, compared with ₹1,135.12 crore in the previous year.

In the last four years, the company has been building on its strengths in quality. "Today no product is sent out even after the quality control department clears it as it also has to be okayed by a separate audit group, a kind of external team that has representatives from different departments," says Kumar.

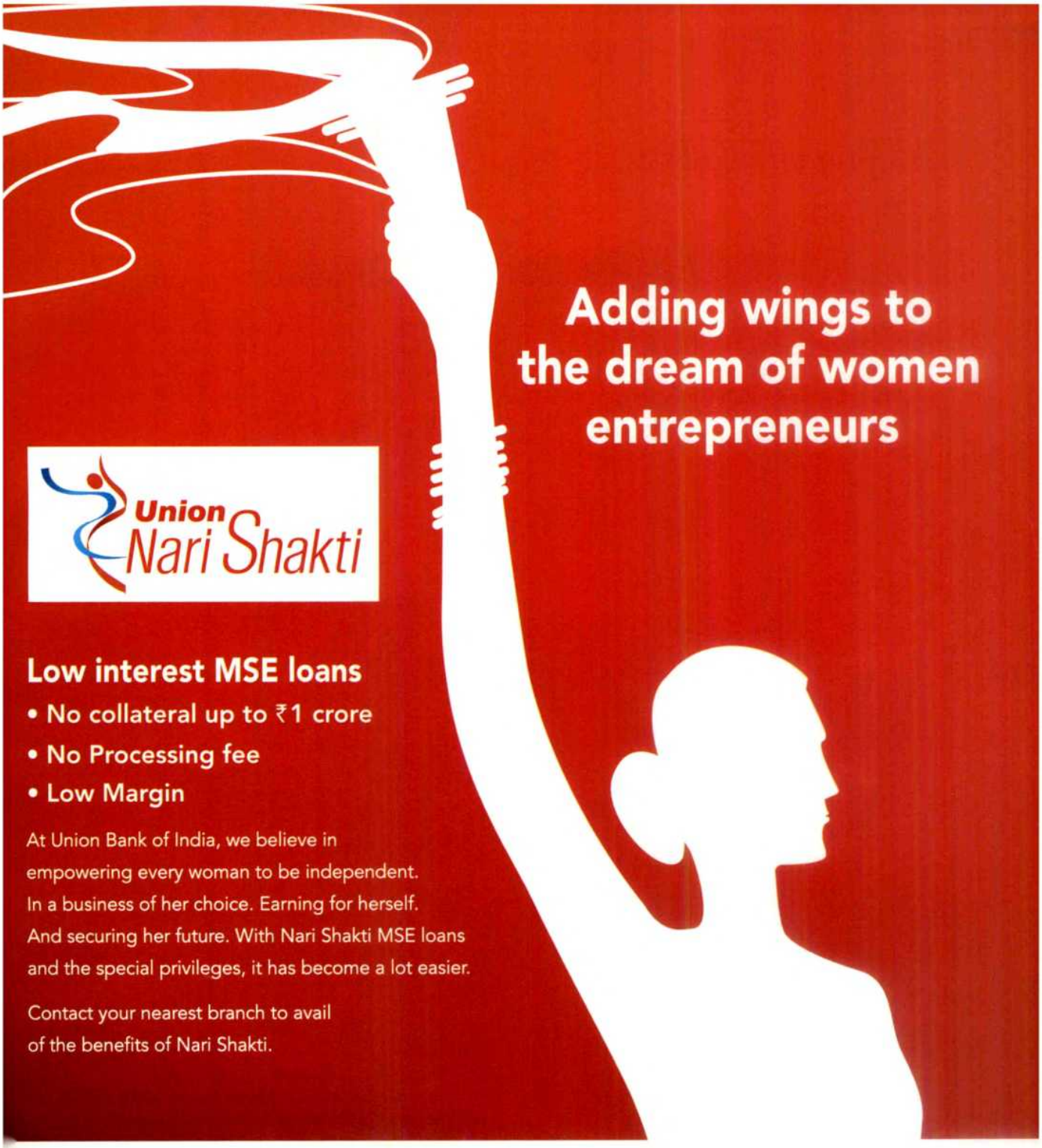
What sets the company apart from competition? "It is our continuous focus and R&D on feed formulation. We are constantly working on improvements," he says.

Kumar says he still monitors formulation, production and other operations. "Hyderabad, where we have our corporate office, has now become a transit point for me. I was in Kovvur yesterday, in Hyderabad today and will go to Gujarat tomorrow," he says. On why he remains in the plant and closely monitors operations, he says, "I just want to ensure that in case there is a problem it is addressed quickly."

Those at Avanti say the sector is still facing challenges, especially on account of inadequate infrastructure such as power supply to farmers and cold store chains. An added concern is that despite being similar to agriculture, it does not get the same treatment from the government. Also, in spite of technical advancement and development of specific pathogen-free seeds, the possibility of shrimps getting affected by viruses and diseases such as white spot disease and EMS (early mortality syndrome) still cannot be ruled out. "As a company, therefore, working towards ensuring sustainability and reliability of aquaculture is important to us so that farmers do not take short cuts," says Kumar.

People who know Kumar closely vouch for his hard work. "He is a prime example of an entrepreneur picking up opportunities in a space that has multinationals operating in it. Being a food business, it is challenging. If he is able to export to tightly-regulated markets of the US and Europe,

Interview with A. Indra Kumar of Avanti Feeds at businesstoday.in/emergingcos2015-avanti



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it means he has a good grip on quality systems," says C. Suresh Rayudu, the chairman of the Andhra Pradesh chapter of the Confederation of Indian Industry and Vice Chairman and Managing Director of Srinivasa Hatcheries, a leading poultry company.

Abraham J. Tharakan, President of the Seafood Exporters Association of India, and Chairman of Amalgam Foods, says: "Avanti is on a roll. It has been doing extremely well. Its products are well accepted by farmers. As the aquaculture sector expands, the demand for feed will only grow."

But he adds a note of caution. "The challenge will be to ensure adequate supply of high-grade fish meal. Fish meal is still largely imported. Going forward, this will lead to pressure as oceans the world over are overfished," he says. ▶

2

KAVERI SEEDS

RANK

GROUP: STANDALONE COMPANIES
SEGMENT: REVENUE ₹1,000-3,000 CRORE

Seeds of Success

STAYING CLOSE TO FARMERS, ANTICIPATING DEMAND AND TAKING RISKS ARE THE HALLMARKS OF KAVERI'S SUCCESS.

By E. KUMAR SHARMA

In 2009/10, Kaveri Seeds sold 500,000 packets – each 450 gm – of Bt cotton seed hybrids. Five years later, it was selling around 8.7 million similar packets. "We sensed these were what the seeds farmers wanted and took a calculated risk to scale up by investing in infrastructure," says the 64-year-old CEO and Chairman G.V. Bhaskar Rao. "In 2014/15, cotton contributed about 70 per cent to our total revenue." The initiative saw its total income surging from ₹234.7 crore in 2010/11 to ₹374.8 crore in 2011/12 to ₹1,131.18 crore in 2014/15, with a net profit of ₹301.84 crore.

Staying close to its farmer-consumer, anticipating demand and taking risks to provide for it, are the hallmarks of Kaveri's success. Apart from Bt cotton, where it owns the popular brands 'Jadoo', 'Jackpot' and 'ATM', it also produces hybrid seeds of maize, rice, millet, mustard and more. Maize seeds contribute 15 per cent to its revenue and rice seeds six per cent. The remaining income comes from the other seeds, as well as Kaveri's four subsidiaries – one engaged in marketing, one in research and marketing, a third working on bio-nutrients and a fourth growing exotic vegetables in poly houses.

"To produce so many seeds, pack them and distribute them in a window of barely 15 to 20 days just before the sowing season, you need to plan well in advance," Bhaskar Rao says. He began working on the expansion from 2011. "We invested in manpower, research, infrastructure, distribution, and identification of skilled farmers," he says. Manpower, for instance, has risen from 700 in 2011 to 1,100 in this period, while the company spends between ₹30 and ₹50 crore on R&D and better infrastructure every year.

It has been a long journey from 1976 when Bhaskar Rao, an agricultural graduate from Karimnagar (now in Telangana state), set up his seed company, initially named after himself and later called Kaveri Seeds, be-

G.V. Bhaskar Rao
CEO & Chairman

A. PRABHAKAR RAO

REVENUE:
₹1,011.93 crore

NET PROFIT:
₹211.29 crore

THREE-YEAR CAGR:
62.76%

THREE-YEAR AVERAGE TOPLINE GROWTH: 64.01%

WITH 70 PER CENT REVENUE COMING FROM THE SOUTH, KAVERI NEEDS TO EXPAND TO CENTRAL AND NORTH INDIA AS WELL AS OVERSEAS

cause most of his revenue flowed from the state where the Cauvery river meandered. Marketing was hard work, much of which he undertook himself. He still retains the black Royal Enfield motorcycle on which he travelled from village to village, though today his preferred vehicle is a gleaming Toyota Land Cruiser. "In 1980 alone, I travelled around 300,000 km on this motorcycle carrying our seed packets to farmers and then revisiting them again at the end of the season to collect money from them," he says. That year, his revenue was around ₹4 crore. By the time Kaveri listed on the stock exchanges in 2007, it had risen to ₹67 crore.

"In 1985, we were selling only 150 tonnes seeds during the kharif season," says Bhaskar Rao. "But within three years this went up to 3,000 tonne." Early on, the company also started collecting germplasms and working on new hybrids. It 1997, it came out with its first original hybrid maize variety Kaveri 517, which produced 25 to 30 per cent higher yield per acre and was resistant to drought. Today, Kaveri markets around 75 of its own hybrids in different crops such as maize, sunflower, paddy, jowar and bajra, apart from hybrid vegetables like tomatoes and chillies. Another 50 hybrids are being worked upon to replace or strengthen the current ones. The company now has five processing units. "I'm confident of a year-on-year growth of at least 20 per cent, though if you see our track record of the last few years, we've been growing at around 40 per cent every year," says Bhaskar Rao.

The total Indian hybrid seeds market is around ₹12,000 crore, according to industry estimates, of which the largest component is Bt cotton at about ₹5,000 crore, followed by maize at ₹2,200 crore and rice at ₹900 crore. Kaveri is the second biggest player in Bt cotton, with a market share of around 18 per cent – behind only Nuziveedu Seeds, which is leading with a market share of around 20 per cent in this segment, according to market estimates. Kaveri is also among the top three in hybrid maize and rice seeds, with market share of 12 and six per cent. In hybrid maize, DuPont is its biggest rival; in rice, it is Bayer. "I think Kaveri has been a very innovative company as it has not only come out with winner hybrids but also has the ability to market them well," says Kapil Mehan, Managing Director, Zuari Agro Chemicals, a close observer of the agriculture sector for many years.

Barring yoga, for which he makes time every day, Bhaskar Rao maintains he has few other interests apart from his company and the farm sector. But he has realised the need to be less hands on so he can focus on

GROWTH DRIVERS: Rising demand for cotton, corn and rice seeds

CORE STRENGTH: Strong R&D with 55 scientists and healthy pipeline of new hybrids across about 50 crops

FUTURE PLANS: To expand presence nationally, tap new markets globally and build strengths in categories like hybrid vegetables

CHALLENGES: Growing beyond southern states

GOAL: To double revenue in the next five years

strategy. This year, for the first time, Kaveri appointed a chief operating officer (COO), G.S. Satish. "He is an agriculture graduate who also has an MBA from IIM Ahmedabad and many years of experience in leading global companies," says Bhaskar Rao. Other recent appointments include a supply chain head and a national sales manager. "I need to keep professionalising and investing in manpower if I am to get the growth I want," he adds.

Bhaskar Rao hopes to double revenue in the next five years. With 70 per cent of his turnover coming from Andhra Pradesh, Telangana, Tamil Nadu and Karnataka, he knows he needs to expand his market to central and north India, as well as overseas. A beginning has been made with the export of maize seeds to Bangladesh for the last two years, but he hopes to move beyond into Sri Lanka, the Philippines and Vietnam as well. However, there is enormous potential left even within the country. "Only three to four per cent of Indian farmers use hybrid rice seeds, while 90 per cent of

Interview with G.V. Bhaskar Rao of Kaveri Seeds at businesstoday.in/emergingcos2015-kaveriseeds

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Chinese farmers do," he says. "True, with maize, 70 to 80 per cent Indian farmers are using hybrid seeds, but here too some scope for growth remains."

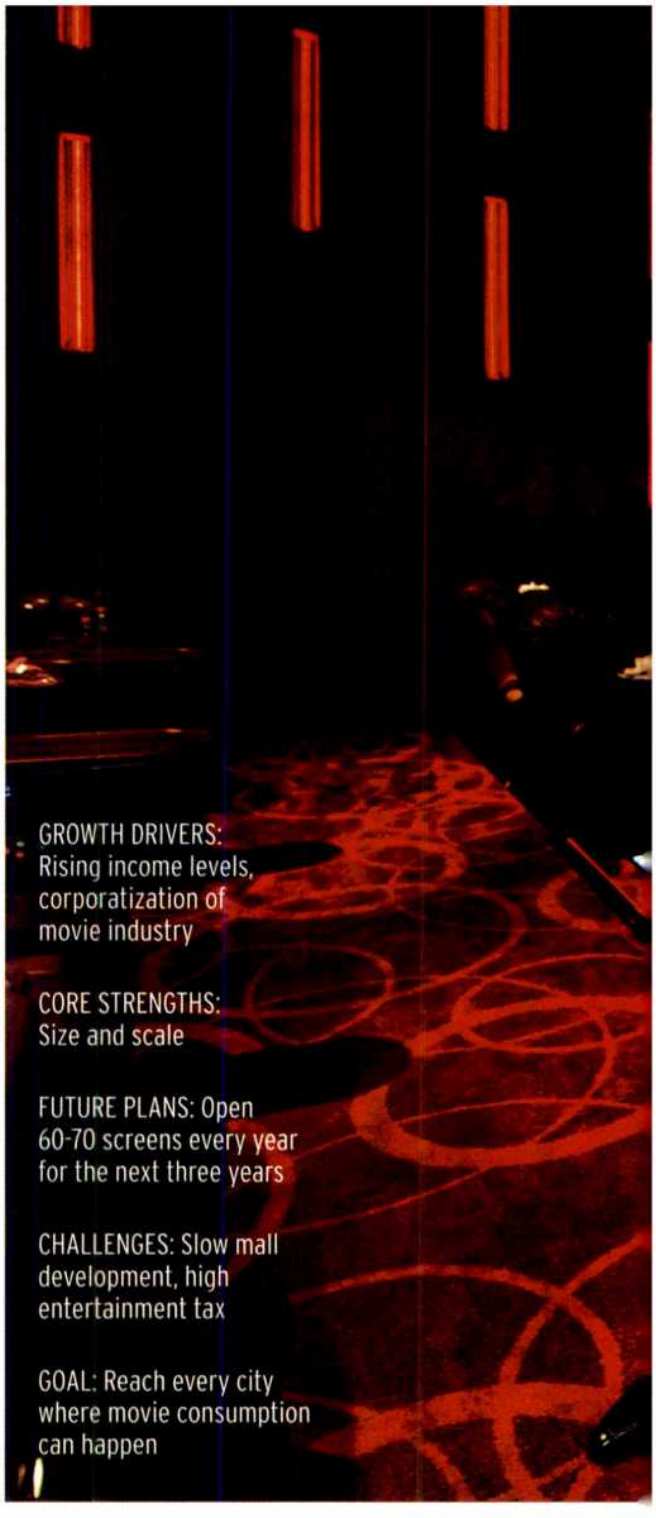
"Kaveri will become more sustainable in future if it can leverage its R&D to repeat the success story of its Bt cotton brands in other categories, including hybrid vegetables," says Mehan of Zuari. ▶

PVR RANK 3

King of Entertainment

PVR HAS AGGRESSIVELY EXPANDED TO MAINTAIN ITS LEADERSHIP POSITION IN THE MULTIPLEX BUSINESS.

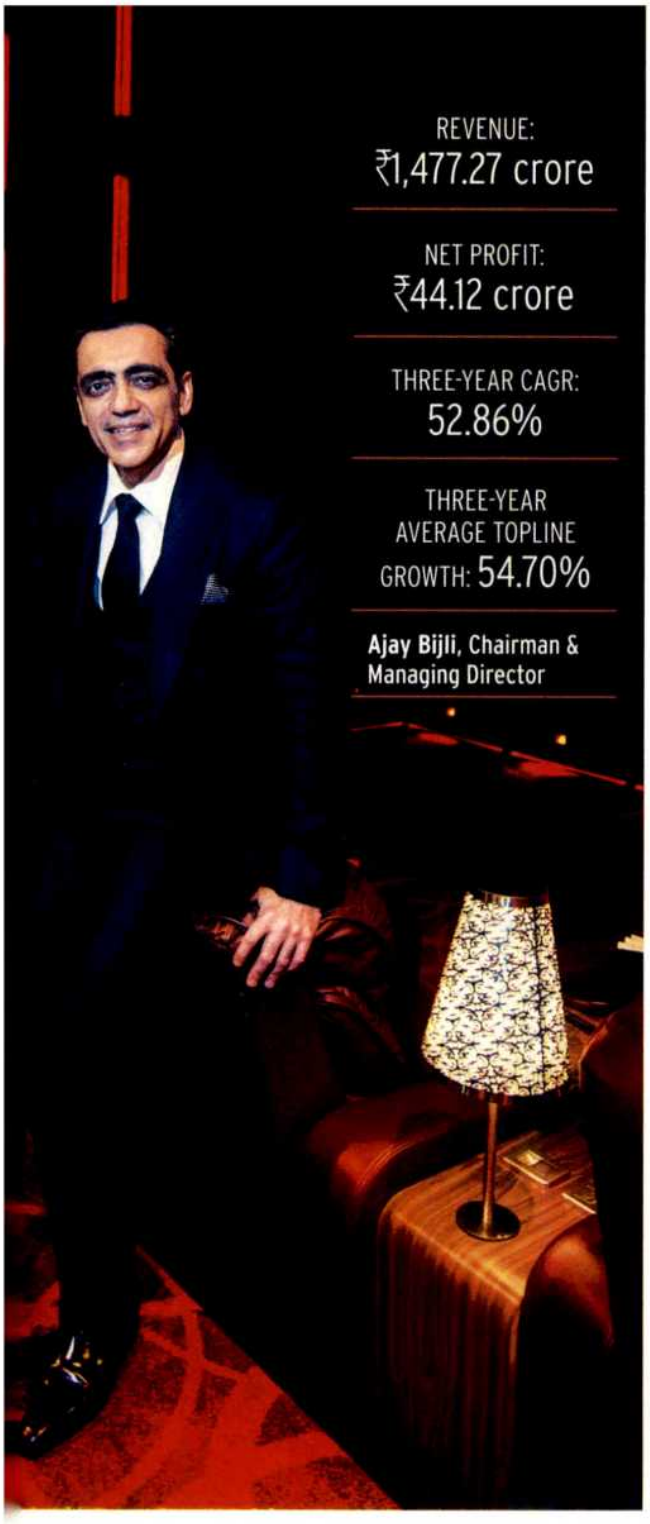
By MANU KAUSHIK



For PVR, 2012 was a defining year. Until that year, the company had set up 213 cinema screens across India since starting its first multiplex, in Delhi, in 1997. "We were growing organically," says Ajay Bijli, Chairman and Managing Director. "But we saw that growth in shopping malls was getting us only 60 to 70 screens a year, and there were other players as well who were doing the same thing. That wasn't taking us to a critical mass needed to justify being a leader," he adds. To boost growth, PVR in November 2012 bought about 70 per cent of Mumbai-based multiplex chain Cinemax from realty player Kanakia Group for ₹395 crore. That deal propelled PVR's screen count 65 per cent overnight to 351 and cemented its standing as market leader, a position it maintains even today. The buyout, says Bijli, is the biggest turning point for PVR in recent times.

The deal helped PVR in several other ways. It expanded PVR's presence in western India where it had limited properties – 70 per cent of Cinemax's properties were in that region. Geographical reach is important from the perspective of advertising revenues. "Historically, the fragmented [movie] exhibition industry and its small reach versus traditional advertising platforms (such as TV and print) attracted limited advertisers. Consolidation... has addressed this issue," says a March report by Kotak Institutional Equities on PVR.

Advertising contributes about 11 per cent to PVR's



VIVAN MEHRA

Interview with Ajay Bijli and Sanjeev Kumar at businesstoday.in/emergingcos2015-pvr

GROUP: STANDALONE COMPANIES
SEGMENT: REVENUE ₹1,000-3,000 CRORE

revenue while box-office sales make up 66 per cent and food and beverages (F&B) 23 per cent. "Globally, the revenue pie of cinema exhibition companies is similar," says Bijli. For example, in 2013, Regal Entertainment Group, the largest cinema exhibition company in the US, generated 68 per cent revenues from ticket sales, 26 per cent from F&B and six per cent from advertising.

PVR has continued to expand at a rapid clip over the past few years. Earlier this year, it announced its second acquisition, of DT Cinemas from property developer DLF for about ₹500 crore. PVR had first tried to acquire DT Cinemas in 2009 but the deal did not go through. DT Cinemas operates 29 screens across eight properties in the National Capital Region and Chandigarh. With the acquisition, PVR will have a presence in 44 cities with 506 screens. The deal will help PVR increase its share of the installed seating capacity in the profitable Delhi-NCR area to 21 per cent from 15 per cent before.

However, some say the acquisition is a tad overpriced. The acquisition price works out to around ₹12 crore per screen while a six- to seven-screen multiplex typically costs about ₹25 crore. Bijli defends the deal. He says the location of screens is very important in the multiplex business. "Their screens are in good malls. If we find a high-quality asset that is generating good EBITDA and is in a good location, [we will buy it]," he says. Chitrangda Kapur, analyst with Reliance Securities, says that if the location is premium, the average ticket price (ATP) is higher. "While the ATP for PVR is higher than INOX, it is comparable to DT Cinemas."

To fund the acquisition, PVR is raising ₹350 crore from Renuka Ramnath-founded private equity firm Multiples Alternate Asset Management by diluting 10.7 per cent equity. The remaining amount will come from debt and internal accruals. Analysts say PVR is financing the deal mainly from PE funds because its debt-to-equity ratio at 1.6 is already high. The high ratio restricts PVR's ability to raise money for additional screens in the future. "The organic expansion will continue to happen from internal accruals," says Jaykumar Doshi, analyst at Kotak Institutional Equities.

Bijli says PVR plans to add 60 to 70 screens each year for the next three years. But rising competition from players such as INOX and Cinepolis and a weak pipeline of shopping malls under development could hamper growth. This could prompt existing mall owners to demand higher rent, say analysts. To address this issue, PVR is seeking revenue-sharing deals with mall owners instead of giving a fixed amount as rent. Another major factor over which PVR has no control is the quality of movies being released. Sanjeev Kumar, Joint MD, PVR, says last year was difficult as very few movies succeeded at the box office. According to BSE, the company's consolidated net profit was down 77 per cent to ₹12.76 crore in 2014/15. But he is hopeful about the current year. "There's a great mix of Hindi and English films [this year]. The line-up is looking good," he adds. ▶

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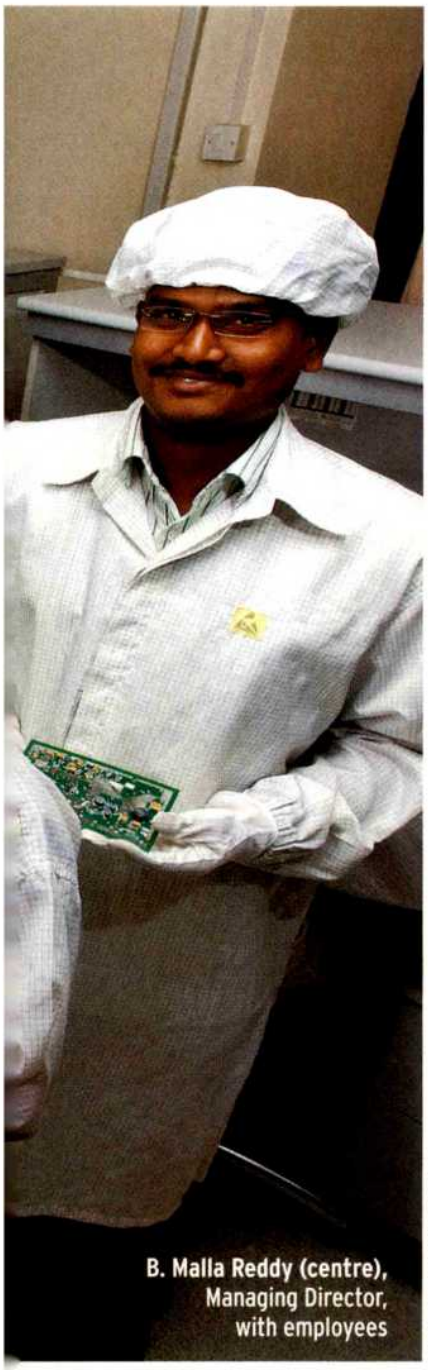
REVENUE:	NET PROFIT:	THREE-YEAR CAGR:
₹551.78 crore	₹50.88 crore	49.16%

ASTRA MICROWAVE PRODUCTS
RANK **1**

GROUP: STANDALONE COMPANIES
SEGMENT: REVENUE ₹500-1,000 CRORE



B. Malla Reddy (centre), Managing Director, with employees

A. PRABHAKAR RAO

THREE-YEAR AVERAGE TOP-LINE GROWTH:
56.30%

Growth on Its Radar

THE GOVERNMENT'S OFFSET POLICY IN DEFENCE IMPORTS HAS SPURRED ASTRA MICROWAVE'S RISE.

By E. KUMAR SHARMA

The commissioning of the indigenously developed Multi-Object Tracking Radar (MOTR) in March this year was a proud moment for India. Built by the Satish Dhawan Space Centre, the rocket launch facility of the Indian Space Research Organisation (ISRO) in Sriharikota, this radar can track multiple objects in space simultaneously, unlike conventional radars, which track just one at a time. Only a few other countries – the US, Japan, Israel and some European ones – possess this technology. What is not widely known is that much of the hardware for the MOTR was provided by a 24-year-old Hyderabad-based company, Astra Microwave Products, which specialises in components for radars. "Much of our business today is manufacturing subsystems that go into the making of 'phased array radars', or 'active array radars'," says B. Malla Reddy, Managing Director of the company and one of its three founders.

Earlier, Astra Microwave had also supplied microwave components for the remote sensing satellite RISAT that ISRO built in 2011. (RISAT stands for remote imaging satellite.) "Our experience with Astra has been excellent," says a senior ISRO official, unwilling to be identified. "What stands out about Astra is its focus on quality and readiness to track performance after sales. It ensures the customer is satisfied at each stage."

Astra's business was always manufacturing components and subsystems for microwave wireless communication, but the nature and scope of its work have changed. Until 10 years ago – its revenue then was around ₹65 crore against ₹634.34 crore in 2014/15 – a sizeable portion of its business came from the telecom sector, both government and private makers of wireless communication equipment. But many of the latter could not survive the cellular revolution, leading Astra to shift focus to space and defence. "The share of defence in our India revenue is about 70 per cent, while space would be 20 per cent," says Malla Reddy. "The

remaining 10 per cent comes from miscellaneous sources, mainly weather data collection platforms or meteorology products."

In defence, apart from radars, Astra provides components and subsystems for missiles, electronic warfare or electronic counter measures. Its main local clients are Bharat Electronics Ltd (BEL) for radars and electronic warfare equipment, and Bharat Dynamics Ltd (BDL) for missiles. Both BEL and BDL work with specifications developed by Defence Research and Development Organisation (DRDO) laboratories, which are shared with the private manufacturers they award contracts to. How severe is the competition? Though there are giants such as the Tatas, Mahindras and Larsen & Toubro in defence production, none operates in the niche area that Astra does. "Usually there are between three and 10 companies competing with us for a tender, but most of the others are either very small or companies in digital electronics eyeing the microwave field," says Malla Reddy. He adds that, in recent times, BEL has been competing with Astra in most tenders.

GROWTH DRIVERS: Niche business opportunities in defence and space sectors

CORE STRENGTHS: Growing subsystems sales; supplier to companies making radars

FUTURE PLANS: To make complete systems, JVs to make communication equipment for defence

CHALLENGES: Likely diminishing role of the offset policy with the government's focus on "Make in India"

GOAL: ₹1,000 crore revenue in the next three to four years

But an equally big share of Astra's revenue has lately come from exports. Revenue has shot up in the last two years – it was ₹243.97 crore in 2012/13 and ₹551.78 crore in 2013/14. "Exports have contributed over 50 per cent of our top line during this period," says Malla Reddy. "This is mainly due to the offset policy India has implemented in defence for the past five years." The offset policy requires overseas suppliers, which have won defence contracts in India above ₹300 crore, to source 30 per cent of the order value from Indian manufacturers. "The components Indian companies provide get integrated into the equipment that the foreign company is supplying to India," adds Malla Reddy. Astra mainly supplies to an Israeli firm based on the designs shared by the company.

The use of offset policy, however, may get diminished over time with the Narendra Modi government's emphasis on "Make in India". "Revenue from exports will fall to around 25 per cent of the total this year as orders are getting completed and the government's focus is on indigenous manufacture instead of imports," says Malla Reddy. "Instead of offsets, there could be joint ventures in India. New orders are not coming because the situation is fluid." He is prepared for an overall revenue drop to around ₹450 crore this year, but with policy clarity coming, expects it to climb back in 2016/17. "Indian companies will not be affected in the long term as they are all backend suppliers," he says. Instead of exporting components and subsystems, companies like Astra will be supplying to the local JVs that foreign players set up.

Industry insiders agree that opportunities can only grow with the new thrust. The increase in the foreign direct investment limit to 49 per cent in the defence sector is bound to make India more attractive as a manufacturing centre for global majors. "There will be an impetus to bring in new technology," says G.K. Pillai, CEO and MD of Walchandnagar Industries, which focuses on defence, aerospace and nuclear power. "The total defence market in this region would be around ₹1 lakh crore a year, of which 70 to 80 per cent is imported. If local manufacturing lowers imports to around 50 per cent, it means a ₹25,000 crore to ₹30,000 crore per year market opening up."

Astra is also looking at new areas of growth. Last year, it opened a systems R&D centre in Bangalore. "We have been a subsystems company so far, but the centre indicates our new focus on making the complete radar," says Malla Reddy. "One of our subsystems is the 'transmit-receive' module for which we imported semiconductor devices from the US. But now we have been making these devices ourselves. There is a global market for them. To exploit this, we have set up a 100 per cent subsidiary in Singapore. The Singapore-Malaysia-Taiwan belt is an important hub for semiconductor manufacture and distribution." Astra is also setting up a JV with 51 per cent stake to make communications equipment for defence.

Interview with B. Malla Reddy of Astra Microwave at businesstoday.in/emergingcos2015-astra

Malla Reddy maintains it will be distinct from radar, but is tightlipped about details. He has shareholder approval to raise ₹170 crore to fund the new ventures.

Astra Microwave employs around 1,000 people, 250 of whom are in R&D. "Getting people with sufficient experience in our niche area is the biggest challenge," says Malla Reddy. "There aren't readily available and new entrants in the field keep taking away our people. Mostly, we recruit fresh graduates in electronics and train them. We also tap people from ISRO or DRDO, sometimes even retired personnel." Still, Astra Microwave has been managing all right. "The good thing about the company is that it is driven by technocrats with long years of experience and a clean track record," says Srini Raju, whose family owned company Skanda Aerospace held a 10 per cent stake in Astra from 2011 to 2014, exiting with a 2X return. "It now needs to focus on building the next line of leadership and diversifying its global customer base." ▶

2 KAMARAJAR PORT

RANK

GROUP: STANDALONE COMPANIES

SEGMENT: REVENUES ₹500-1,000 CRORE

Kamarajar port, near Chennai in Tamil Nadu

JAISON G.

REVENUE:
₹526.05 crore

NET PROFIT:
₹313.27 crore

THREE-YEAR CAGR:
53.5%

THREE-YEAR AVERAGE TOP-LINE GROWTH:
54.5%

Sailing Smoothly

KAMARAJAR PORT BETS ON TECHNOLOGY TO BECOME ONE OF THE MOST PROFITABLE PORTS IN THE COUNTRY.

By VENKATESHA BABU

The first thing that strikes a visitor to Kamarajar port at Ennore, about 20 km from North Chennai, is that is it spotlessly clean. This is a remarkable achievement considering that this government-run facility handles nearly 25 million tonnes of one of the world's dirtiest fossil fuels – coal – every year.

No, Kamarajar Port Ltd (KPL), the company that runs the port, has not been inspired by the government's recently-launched 'Swachh Bharat Abhiyan'. In fact, the

credit for the port's smooth running goes to its leaders who completely mechanised operations early on. The port, for example, decided to use covered conveyor belts to ferry coal right from the moment it is unloaded to be carried to the power stations nearby. Power plants around the port, with 7,000 MW capacity, meet a large part of Tamil Nadu's requirements.

How did a port, which was started just a little over a decade ago as a satellite to the Chennai port, grow so fast that it now competes with its much-larger neighbour? KPL, for the record, has been increasing revenue by 54 per cent on an average every year for the last three years. In the year ended March 31, 2015, it earned a profit of ₹336.57 crore on a revenue of ₹597.51 crore, with just 100 employees. The central government holds a 66.7 per cent stake in KPL while Chennai Port Trust holds the rest.

KPL was conceived in 1996 when courts passed judgments about pollution at the Chennai port because of the huge amount of coal it was handling for meeting the state's thermal power requirements, says Sanjay Kumar, Director (Operations), KPL. The port, since day one, enjoyed some advantages. It was on the Coromandel coast and had a natural creek. Plus, it was incorporated as a company under the Companies Act, which meant it could set tariffs on its own and not be governed by the Tariff Authority for Major Ports. It also had a captive customer in Tamil Nadu Electricity Board.

It started operations in 2001 as the 12th major port in India with two berths for handling coal. Right at inception, it decided to outsource most services, including piloting, towing, loading, unloading, tug assistance, dredging, stowage, operations and maintenance. It decided to follow what is called in industry parlance a 'landlord port' model. Mechanisation kept workforce to a minimum (labour trouble is a big issue at most ports) and ensured efficiency and good turnaround time. It was also helped by the fact that it got 2,000 acres of surrounding land and so could expand without the usual land acquisition challenges, though it has in the recent past acquired a few hundred acres more at market rates.

In spite of all these factors, a lot of credit goes to the management as well. For instance, in 2008, when Nissan was looking to export cars from India, it was scouting for a port. The KPL brass not only wooed Nissan but, once it agreed to sign a Memorandum of Understanding, it also worked overtime and built a berth with a capacity to handle three lakh cars annually in just two years.

M. Gunasekaran, General Manager (Finance), says the company invested close to ₹150 crore to build the berth at a time its revenue was in the same region. "We liaised with government authorities to ensure all customer needs were met. We walk step in step with customers' requirements," says Kumar.

GROWTH DRIVERS: Proximity to Chennai, an auto hub, and coal imports; complete automation; freedom to fix tariffs

CORE STRENGTHS: Presence of creek, availability of land to expand, quick turnaround time, proactive management

FUTURE PLANS: Expansion of facilities. Works in progress include container terminal, multi-cargo berth and LNG terminal

GOAL: To list the company on the bourses next year after getting necessary approvals

Last year, more than 1.8 lakh cars were exported from the port. As Chennai is home to a number of auto companies like Ford and Hyundai, others have also approached KPL for exports.

So, is KPL taking away business from the Chennai port? "We don't compete with them but complement them. We don't have a deliberate strategy to go after somebody else's customers. There is enough room for everybody to grow. After all, they own a third of our equity," says Kumar.

This year, the port is working at full capacity. Today, the all-weather port has six berths, which can handle everything from coal, iron ore, minerals, liquefied petroleum gas, cars and liquid cargo. Adani Ports is building a container terminal at a cost of ₹1,270 crore under the design, build, finance, operate and transfer model.

An employee of Adani Ennore Container Terminal Pvt Ltd, who spoke on condition of anonymity as he is not an authorised spokesperson, said: "We were supposed to operationalise the terminal in January 2017 but as the CMD of KPL, M.A. Bhaskarachar, has pointed out, we may start it in April 2016, nine months ahead of schedule. While a private company executing a project ahead of schedule is not surprising, I am impressed that in things like dredging and other areas, KPL has proactively kept

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pace with our progress. Full credit to their team, too." He credits the management with using the available land cleverly. "They don't allow the port to be used as a place for storage and ensure that it remains a place for transit."

Kumar says KPL has been able to do that because it is nimble. "There are no layers of bureaucracy here. Any customer, prospective or current, can reach out to the chairman or me or anybody in the organisation." One reason for this is that KPL has hired talent from the market. Kumar himself held a senior position in the Central Industrial Security Force before taking up his current role.

The port has had its share of troubles, too. When Sical Logistics set up a berth for exporting iron ore, nobody anticipated the coming demand collapse. The berth is now being redesigned so that it can handle other things as well. "We have learnt valuable lessons from this. We will now ensure that we take all factors into consideration. If not for this setback, our top line would have exceeded ₹1,000 crore this year," says Kumar.

A large land bank, assured business, good revenue visibility and a proactive management helped KPL earn Mini Ratna status within eight years of launch. Apart from the terminal that Adani is constructing, the Chettinad Group is building a multi-cargo berth, Indian Oil Corp is building an LNG terminal at an investment of ₹5,000 crore and TNEB is investing an additional ₹400 crore to ramp up facilities at the port. "We have visibility of at least ₹8,000 crore investment over the next five years," says Gunasekaran.

In March 2014, KPL raised long-term debt of ₹500 crore to fund some projects. That time, CARE Ratings had said that while KPL had several strengths, it faces stiff competition from non-major private ports like Krishnapatnam port, Karikal port and L&T's Katuupalli port. L&T's Kattuppali port is within a few kilometres of the KPL facility. While Kumar and his team are sanguine about KPL's prospects, they will have to keep executing flawlessly to stay ahead of the competition. ▶

3

SUVEN LIFE SCIENCES

RANK
GROUP: STANDALONE COMPANIES
SEGMENT: REVENUE ₹500-1,000 CRORE

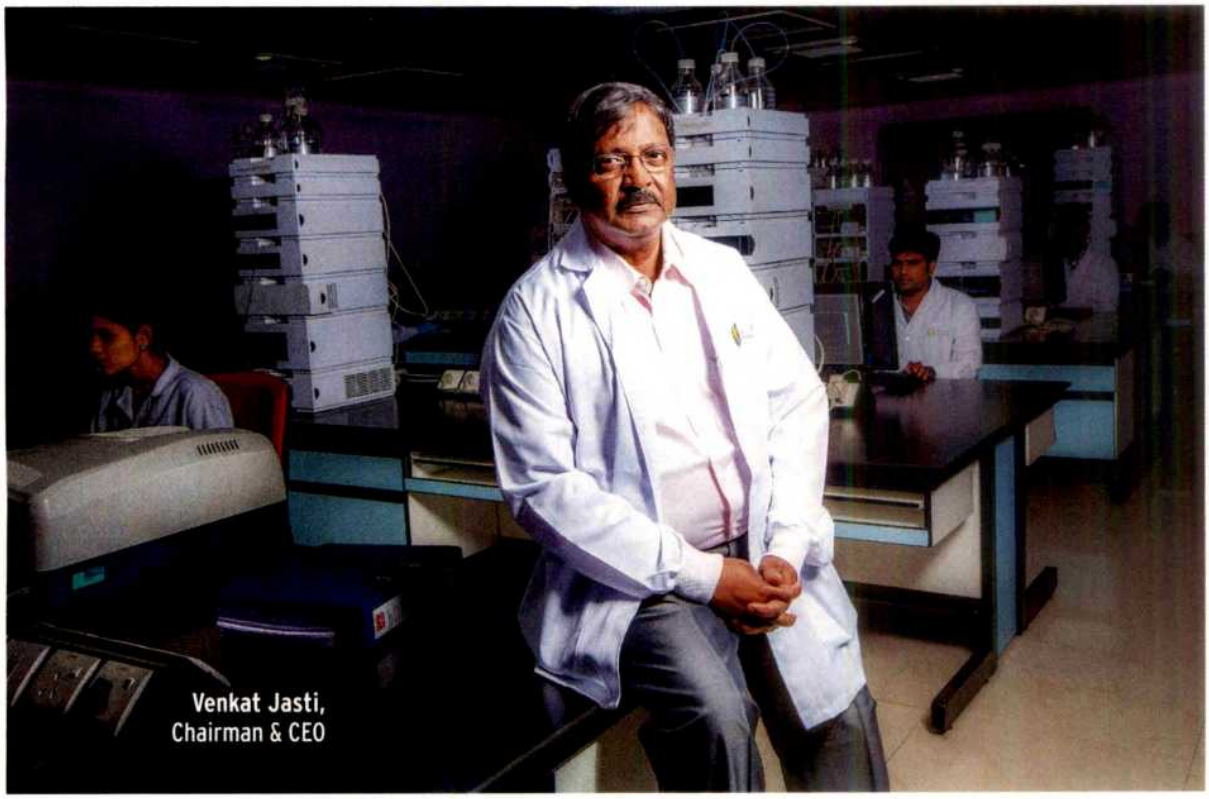
Discovery Driven

THE BIOPHARMACEUTICAL COMPANY IS SEEING TRACTION AND GETTING CLOSE TO FINALLY VALIDATING ITS BUSINESS MODEL.

By E. KUMAR SHARMA

For Hyderabad-based biopharmaceutical company Suven Life Sciences, 2013/14 proved to be a pivotal year. In the drugs discovery space, its SUVN-502 molecule for Alzheimer's, successfully completed Phase-I trials in the US and is expected to enroll its first subject, or patient, for the Phase-II (proof-of-concept) stage by October 2015. In the Contract Research and Manufacturing Services (CRAMS) sector, three molecules, or new chemical entities (NCE), of global innovator companies, for which Suven developed intermediates, moved into the pre-launch stage.

According to Chairman and CEO, Venkat Jasti, if SUVN-502 clears the proof-of-concept stage by end of 2017, there could be significant upside for the company because it will be a first-of-its-kind drug for Alzheimer's. Suven now has 13 molecules in its NCE pipeline. CRAMS also provides a big opportunity to the company. In its CRAMS business, Suven is partnering global players in 110 projects. It has 57 molecules in Phase-I, 52 in Phase-II



Venkat Jasti, Chairman & CEO

A. PRABHAKAR RAO

REVENUE:	NET PROFIT:	THREE-YEAR CAGR:	THREE-YEAR AVERAGE TOPLINE GROWTH:
₹513.62 crore	₹144.16 crore	50%	53.1%

and one in Phase-III, apart from three where pre-launch quantities of drug intermediates were supplied to the innovator companies, which have launched the products in the market. Suven hopes the repeat business, in terms of more supplies of intermediates, will likely start from 2016. This could, according to Jasti, add not less than $15 million to revenues per year for an extended period.

Says Utkarsh Palnitkar, Head, Advisory and Life Sciences, KPMG: "I think the Suven management has been brave. It requires a lot of courage to get into pure-play drug discovery, since it is fraught with inherent risks. The company has tried to balance it out with its services revenues and if it manages to successfully come up with outlicensing (monetising its drug discovery assets) deals, it could be a validation of the business model."

Suven has recorded 50 per cent compound annual growth rate (CAGR) since 2011. Its total income were up from ₹152.25 crore in 2010/11 to 529.8 crore in 2014/15, which is marginally higher than 2013/14.

The unprecedented growth witnessed by the 26-year-old biopharmaceutical company over the last few years, was driven by three factors. One, after the 2010 global meltdown, innovator pharma companies trimmed their drug discovery pipeline, or NCEs, to focus on a few molecules, and to ensure all projects reach their logical end. "This explains the systematic revenue growth each year. There is regular growth in business with a steady requirement to supply the drug intermediates," says Jasti. Besides, 10 per cent growth in the number of molecules that are being added by the innovator companies each year, is also helping Suven scale up.

Jasti's approach to develop both verticals simultaneously has paid rich dividends. Considering drug discovery is Suven's core strength, he has put a lot of emphasis on the entire process till a compound reaches the Phase-II stage trial, so that Suven can outlicense the product to a

global pharma major for its further development and, eventually, to market it. "With a favourable 0.2:1 debt-to-equity ratio, we are well placed to fund our own research till the proof-of-concept stage," he says.

In the CRAMS business, Suven sees itself as part of a supply chain for major drug discovery programmes – initially to supply drug intermediates to meet the small amounts required in the lab and, later, as the discovery programme progresses, in larger quantities at the clinical trials stage. Finally, for patented products launched successfully, the company gets to supply intermediates till the end of the patent period. "In the last four years, the CRAMS space has started gaining traction with big pharma innovator companies focusing on fewer projects, or drug discovery programmes. And, we are poised to becoming strategic suppliers. Any new commercial opportunity that opened up in 2013 will translate into repeat orders starting 2016," he says. The gap of three years, he says, is because the innovator companies usually take time to make the active pharmaceutical ingredients and the formulation (the finished dosage drug). He says Suven is currently working with around 70 customers, which include around a dozen leading big pharma companies.

GROWTH DRIVERS: In the CRAMS business, three NCEs of innovator companies are moving into pre-launch stage

CORE STRENGTHS: Talent focused on drug discovery and chemistry skills in niche areas

FUTURE PLANS: To plough back revenues into drug discovery and CRAMS business

CHALLENGES: Success of its customers' NCE programme determines its own success

GOAL: To launch a molecule discovered out of its pipeline into the global market

For Jasti, it has been an eventful journey. At 28, after completing his post graduation in pharmacy he began running six of his own community pharmacies in New York and New Jersey in 1977. After spending 12 years in the US, as he was nearing 40, he decided to return home in 1989.

At that point in time, Jasti was the president of Essex County Pharmaceutical Society in New Jersey. As was the trend among pharmaceuticals professionals back then, he wanted to start manufacturing bulk drugs in Hyderabad. He acquired a sick unit, Caffinhal Organics. "But in two years, I found that it was not my cup of tea and realised that for a small player, differentiation was crucial to be successful. Therefore, I decided to look at chemistry and spotted an opportunity in making specialty chemicals using sodium cyanide," he says.

Jasti tied up with a few German companies and started making drug intermediates for them. But then, he says, things changed after India signed the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement mandated by the World Trade Organization (WTO) in 1994.

Says Jasti: "I decided it was time to move into the supply chain of the innovators, but it was difficult to do so for a small, ₹3-crore company. It was then that we devised a business model, which is today popular as CRAMS, to knock at the doors of innovator companies." Suven went public in 1995 and decided to "align itself with innovator pharma companies and supplying drug intermediates for their new chemical entity development programmes".

It was, however, not easy. Unfortunately, in the game of drug discovery, the success of your customer will be your success. Until 2001, only three products had gone into the commercial phase. That too, they were very small products. Even then, the company posted around ₹21 crore in net profit. The next round of success happened in 2013 and, since, there has been no looking back for Jasti.

He has now added a new business stream: identifying and launching products that are small in volume and value, and do not interest major generic companies. As soon as these products go off patent, he intends to launch them and make a quick million or two. He wants to see this business grow to a point where it would contribute 10 to 15 per cent of Suven's total revenues.

Analysts says since the company is still at an early stage with CRAMS, it will still need to cope with the uncertainties of the CRAMS model since the customer's success determines the business growth potential. The company, however, is on a high on the bourses. On the Bombay Stock Exchange, shares of Suven touched a 52-week high of ₹338.50 in April 2015. ▶

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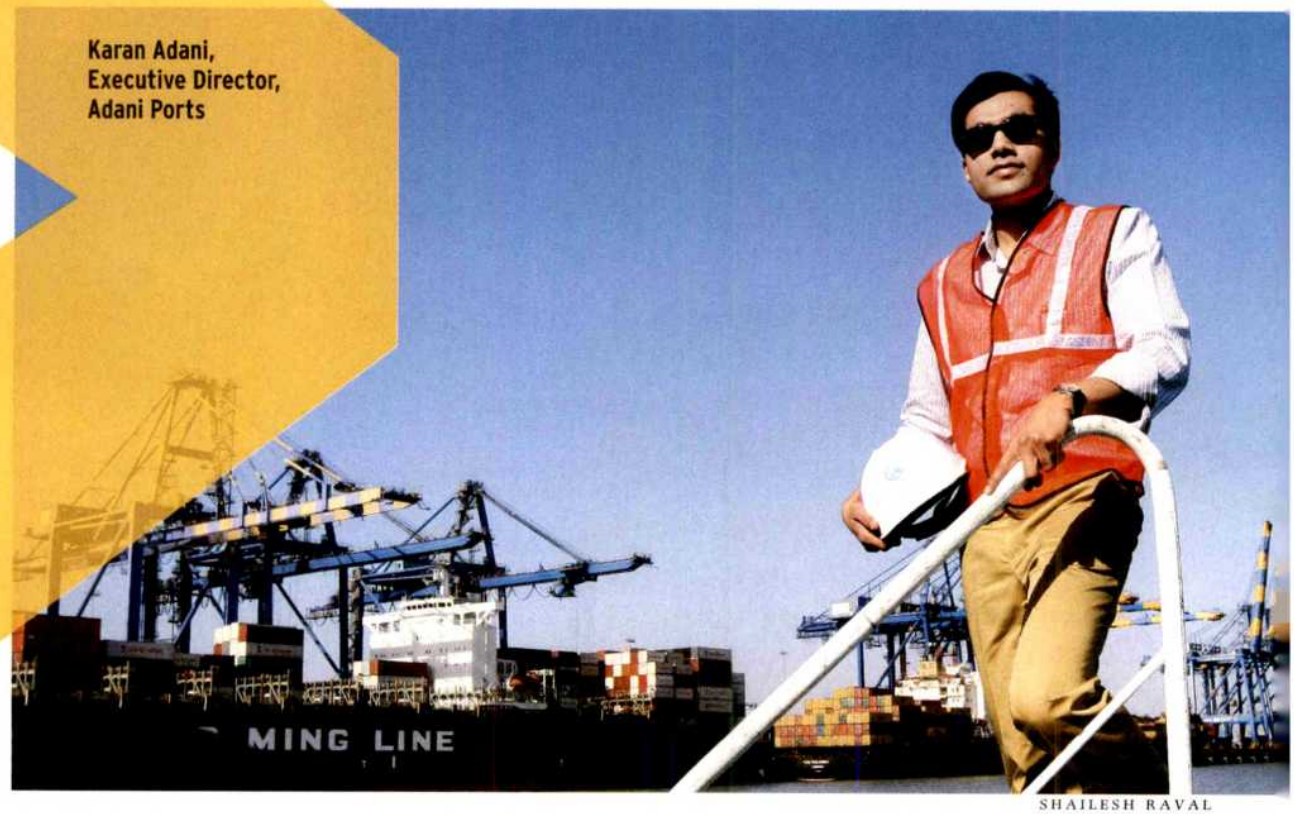
FASTEST-GROWING
Emerging Companies

ADANI PORTS & SEZ
RANK **1**

GROUP: SUBSIDIARIES/ JVs
SEGMENT: REVENUE ₹3,000-6,000 CRORE

A Safe Harbour

ADANI PORTS HAS GROWN RAPIDLY THROUGH TIE-UPS, ACQUISITIONS AND GREENFIELD EXPANSION. By NEVIN JOHN



Karan Adani, Executive Director, Adani Ports

SHAILESH RAVAL

Over the past five years, Adani Ports and Special Economic Zone (APSEZ) has grown from a single-port company to a multi-port operator – spreading its footprint to both the west and east coasts of India. "The strategic locations of our ports and high-tech infrastructure have helped us to capture growth and capitalise on our model of integrated business," says Executive Director Karan Adani, son of Adani Group Chairman Gautam Adani. The rapid expansion reflects on its numbers. In the three years through March 2014, the port behemoth's revenue has grown at a compounded annual rate of 35.65 per cent. In 2014/15, its consolidated revenue jumped by a fourth to ₹6,151.98 crore and net profit climbed by a third to ₹2,324.49 crore.

But it has not been a smooth sailing for the company. Karan says the company faced the challenge of shrinking margins as costs rose and the shipping rates remained

Read interview with Karan Adani at
businesstoday.in/emergingcos2015-adar

flat. To tide over the challenge, the company offered additional logistics solutions to customers instead of mere regular port services, thus earning an edge over its competition. The talent shortage was another challenge. "The past four to five years was our growth stage and we were short of competent and qualified manpower. In order to address this deficiency, we have started our own internal talent development training programme and through multifunctional training, we started rotating people's roles to develop them into all-round leaders," he says.

The port operator runs 17 terminals with 38 berths to handle bulk and container cargo. In 2014/15, it handled a record 144 million tonne cargo across all its ports, up 28 per cent. Of this, the Mundra port alone handled 111 million tonne cargo. The company aims to handle 200 million tonne of cargo by 2020.

The company has built ports and related facilities at Mundra, Tuna Tekra, Dahej, Hazira, Mormugoa, Visakhapatnam and Ennore. The Mormugoa port, started in 2013, can handle seven million tonne while Tuna Tekra and Visakhapatnam facilities, both started in 2014, has a capacity of 20 million tonne and 6.5 million tonne, respectively. In addition, it acquired Dhamra port in Odisha from Tata Steel and Larsen & Toubro, and formed an equal joint venture with CMA Terminals to build a new container terminal at Mundra. APSEZ has also emerged as the lone bidder to build the port superstructure and operate Vizhinjam International Multi-Purpose Seaport. The first phase of the project is estimated to cost ₹7,525 crore. "We have entered into strategic joint ventures with leading shipping lines such as MSC (the world's second-largest shipping line) and CMA CGM (French container transportation and shipping company) and also have long-term tie-ups with customers like Tata steel, Maruti Suzuki, Tata power and SAIL," says Adani. ▶

REVENUE:
₹4,910.23 crore

NET PROFIT:
₹1,900.87 crore

THREE-YEAR CAGR:
35.65%

3-YEAR AVERAGE TOPLINE GROWTH: 35.77%

2 IL&FS TRANSPORT NETWORK
RANK

In the Fast Lane

THE EXPERTISE TO DELIVER DIFFICULT PROJECTS MAKES IL&FS TRANSPORTATION A PREFERRED INFRASTRUCTURE COMPANY. By AJITA SHASHIDHAR

Ask Karunakaran Ramchand, MD at IL&FS Transportation Networks, if he is particularly proud of any of the company's road projects and he would not single out any project. Nudge him a bit and he starts talking about the two tunnel projects the company is building in Jammu and Kashmir. The nine-km Chenani Nashri tunnel, when completed in May next year, will be the longest tunnel in India and will reduce the travel time between Jammu and Srinagar by almost two hours. The 6.5-km tunnel, the second between Srinagar and Sonmarg, also passes through a treacherous terrain, and Ramchand has a bag full of anecdotes on the difficulties he faced in the projects – from unpredictable weather to threat from militants.

From an engineering point of view too, the Himalayan projects are challenging. "It is a remarkable achievement for an Indian company," says Hari Sankaran, Vice Chairman and MD.

So, what sets IL&FS apart from its peers? "It doesn't bid for just any project that comes its way. It ensures it bids only for projects that have high margins," says Anubhav Gupta, Senior Analyst at brokerage Maybank Kim Eng. Gupta endorses the company's strategy of working on annuity projects. "Most of its peers go only for toll-based projects, hoping to earn a higher return on equity, but that's not always the case. Annuity ensures a fixed source of income and it makes sense to have a mix of both."

Interview with Karunakaran Ramchand and Hari Sankaran at businesstoday.in/emergingcos2015-il&fstransport

FASTEST-GROWING
Emerging Companies

Karunakaran Ramchand, MD, IL&FS Transportation

RACHIT GOSWAMI

Although 60 per cent of the company's revenue comes from concession projects, Ramchand likes to call IL&FS more an operations company than a construction firm. "Twenty per cent of our revenue comes from toll and annuity projects. We collect ₹6.5 crore a day from toll projects. By 2017, this will rise to ₹11-12 crore a day. Then, almost one-third of revenue, about ₹4,000 crore, will come from annuity and toll income."

REVENUE: ₹3,655.33 crore

NET PROFIT: ₹196.49 crore

THREE-YEAR CAGR: 29%

3-YEAR AVERAGE TOP-LINE GROWTH: 32%

Ramchand also expects international business to contribute around 25 per cent to the company's revenue in the next few years from 20 per cent now. It is focusing on the road maintenance business through its 2008 acquisition of the Spanish operations and maintenance company Elsamex. Through this unit, IL&FS has a presence in Latin America, the US, West Asia and China. It is also planning to enter Bangladesh and Nepal. Ramchand say Elsamex will give IL&FS an edge even in India. "In India, importance is given only to building roads. That's not long-term strategic thinking. You also have to plan maintenance, as it brings down the lifecycle cost."

IL&FS has 9,000 lane km of roads operational and another 3,000 lane km will be ready by 2017. Overall, it has projects worth ₹36,000 crore in its portfolio. What's next? "India will continue to need good roads and better airports," says Sankaran. "We will have enough on our plate." ▶

3 GODREJ AGROVET
RANK

Farm Heroes

THE AGRIBUSINESS FIRM HAS SHED FLAB AND INVESTED HEAVILY IN R&D. By MAHESH NAYAK

Balram Yadav, Managing Director at Godrej Agrovet Ltd (GAVL), is eagerly waiting for the monsoon to hit Haryana and Punjab. "Our business is cyclical in nature and the monsoon has a huge bearing on our business and profitability," he says, enjoying the glimpse of rain from his fifth-floor office at Godrej One, the new headquarters of Godrej Group at Vikhroli in Mumbai. Good rainfall will help the agribusiness firm by pushing volumes higher. "Rise in commodity prices may increase value but it doesn't mean anything without volumes," he adds.

The unpredictability of the monsoon notwithstanding, GAVL has grown at a steady pace over the past few years. This is thanks to a business restructuring. "The big focus

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Interview with Balram Yadav of Godrej Agrovet at
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Balram Yadav,
MD, Godrej Agrovet

RACHIT GOSWAMI

was to de-risk the business, which meant we had to be very efficient. We cut excess flab and tied up with the right partners to grow in areas where we didn't have core strength. Most importantly, we invested heavily in R&D, particularly in animal feed and palm oil businesses," says Yadav.

GAVL now has 34 facilities compared with 56 four years ago while its capacity has increased to 1.8 million tonne from one million tonne. Last year itself, the company raised the capacity by 3.5 lakh tonne. It has invested close to ₹550 crore for expansion over the past four years, with most of the money going into animal feed plants and palm oil mills. "The big driver for the animal feed business in the future will be our R&D initiatives. We have been investing 10 per cent of our profits in R&D in this business," says Yadav.

Two other initiatives helped the company accelerate growth. In 2008, it sold a majority stake in its retail business, Aadhaar, to Future Group and tied up with US-based Tyson Foods for its packaged foods business. "The [packaged foods] business was loss-making but the tie-up with Tyson Foods brought in expertise and in no time the business became profitable," says Yadav. The company, through a joint venture with Bangladesh firm ACI, recently invested ₹100 crore to build South Asia's largest fish feed mill at a single location, at Rajshahi in Bangladesh.

GAVL earns revenues from five businesses – animal feed, oil palm mills, agricultural inputs such as seeds and pesticides, the JV with ACI, and the JV with Tyson Foods. It is the largest seller of animal feed commercially in India and sold close to 1.1 million tonne last year. The animal feed business accounts for two-thirds of the company's revenues and half its profit. For 2014/15, GAVL reported a 29 per cent jump in consolidated net profit to ₹214 crore on a six per cent rise in revenues to ₹3,795 crore.

The growth potential in the company also attracted Singapore-based private equity player Temasek, which picked up a stake of about 20 per cent in GAVL in 2012 at a valuation of almost ₹3,000 crore. "We had to establish some valuation for our businesses, which are totally disconnected from each other – animal feed, palm oil, farm inputs," says Yadav. He sees huge potential in the ₹550-crore farm input business, which is growing at 20 per cent annually. Growth in this business will come from mergers and acquisitions as well as tie-ups in the pesticide segment. So far, GAVL has been trading in pesticides but it is talking to a Japanese chemical company to acquire the know-how for making pesticides.

REVENUE:
₹3,251.62 crore

NET PROFIT:
₹135.92 crore

THREE-YEAR CAGR:
26.26%

3-YEAR AVERAGE TOPLINE GROWTH: 26.65%

In the palm oil business too, the company has put in a lot of effort in recent years. It is encouraging contract farming of about 5,000 to 6,000 hectare of palm plantation in coastal regions every year. The company today produces 75,000 to 80,000 tonne of palm oil and aims to touch two lakh tonne in the next four to five years. "I see huge opportunities in all businesses. In next three to five years, in an average commodity price scenario, an average annual growth of 13-14 per cent in the top line and 15-16 per cent in the bottom line looks achievable," says Yadav. And if the rain gods keep smiling, the crown jewel of Godrej Group could surpass its own expectations. ▶

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FASTEST-GROWING
Emerging Companies

GAIL GAS
RANK **1**

GROUP: SUBSIDIARIES/ JVs
SEGMENT: REVENUE ₹1,000-3,000 CRORE

Pankaj Kumar Pal, CEO, GAIL GAS

VIVAN MEHRA

Stepping on the Gas

UPBEAT AFTER BAGGING THE CITY GAS DISTRIBUTION PROJECT IN BANGALORE, GAIL GAS HAS AMBITIOUS PLANS.

By ANILESH S. MAHAJAN

In February this year, the Petroleum and Natural Gas Regulatory Board awarded a contract to set up the Bangalore city gas distribution (CGD) network to GAIL Gas – a wholly owned subsidiary of GAIL India that started operations in May 2008. It was a feather in the cap of GAIL Gas and a personal victory for Pankaj Kumar Pal, who took charge as CEO of GAIL Gas in April 2014. The network is expected to be the third biggest in the country, after the ones in Delhi-NCR and Mumbai. Seven other companies, all formidable rivals – Bharat Petroleum Corporation, Hindustan Petroleum Corporation, Gujarat State Petronet, Mahanagar Gas (MGL), Essel Gas, Indian Oil and Adani Gas's joint venture IOAG, and IMC – participated in the auction, but GAIL Gas's bid trumped them all.

"Bangalore will change our fortunes," says Pal. GAIL Gas had revenues of ₹1,025 crore in 2014/15 with a net profit of ₹25 crore, but he now expects this figure to rise dramatically. "Indraprastha Gas (IGL), which runs the Delhi-NCR gas network, has a turnover of about ₹4,000 crore, and MGL,

Interview with Pankaj Kumar Pal of GAIL Gas at businesstoday.in/emergingcos2015-gail

which operates Mumbai's, has around ₹3,000 crore," he adds. "Bangalore has a population of 10 million. By sheer volume, this would be a jewel in any company's portfolio." GAIL Gas will also set up 30 compressed natural gas (CNG) outlets in the city for vehicles, as well as provide gas to industrial and commercial units. Setting up the network will need investments of ₹800-1,200 crore.

GAIL Gas has set up CGD networks and CNG outlets in Sonepat (Haryana), Meerut (Uttar Pradesh), Kota (Rajasthan) and Dewas (Madhya Pradesh). In all, it has 15 CNG outlets and supplies gas to 503 industrial units across the country. It is working on a CGD network for the Taj Trapezium region, comprising Agra and several towns in UP and Rajasthan. It has also formed joint ventures with four state government-owned gas distribution agencies. With Andhra Pradesh Gas Distribution Corporation, GAIL Gas is developing a liquefied natural gas import terminal. With Kerala Gas Ltd, Vadodara Gas Ltd and Rajasthan State Gas Ltd, it is working on CGD networks for Kochi, Vadodara and Jaipur.

There is also talk about transferring GAIL's equity in its eight CGD joint ventures to GAIL Gas. "There could be tax complications," says a GAIL official who does not want to be identified. "The process could attract capital gains tax and other regulatory roadblocks. But if it can be done, it would immediately swell GAIL Gas's balance sheet to ₹6,000 crore. We have to weigh the pros and cons."

REVENUE:
₹1,001.36 crore

NET PROFIT:
₹15.98 crore

THREE-YEAR CAGR:
220.56%

THREE-YEAR AVERAGE TOPLINE GROWTH: 350.18%

Even if it does not happen, Pal believes GAIL Gas will grow threefold or more organically in the next five years. "The Narendra Modi government's target of providing piped gas to 10 million households in four years will give added impetus to CGD networks," he adds. But will there be enough gas available? Domestic gas production has dipped below 90 million metric standard cubic metres per day (MMSCMD) from 130 MMSCMD in 2009/10. If gas has to be imported in larger quantities, GAIL is best placed to do so. "Being a subsidiary of GAIL gives GAIL Gas a natural advantage," says Girish Shirodkar, Managing Director and Partner at US-based Strategic Decisions Group's India chapter.

The big question is how much imported LNG will cost the consumer. "Oil prices have stayed soft a good deal of time now, and gas prices have been delinked from oil," says the head of a rival CGD company, who does not want to be named. "The hedging price between the two fuels is reducing, and projects based on imported gas will not be viable for long. CGD projects will only work if domestic gas is added to the mix." ▶

RAJ WEST POWER
RANK

Powering Energy Needs

THE JSW ENERGY SUBSIDIARY IS ONE OF THE BEST OPERATING POWER PRODUCERS IN THE COUNTRY.

By P.B. JAYAKUMAR

At a time when private power producers are facing the heat of rising consumer demand, inadequate fuel supply and high generation cost, Raj West Power (RWPL), a wholly-owned subsidiary of Sajjan Jindal-controlled JSW Energy, is braving the scorching heat of Thar desert to weave a success story around Rajasthan's electricity needs. Located in Barmer, RWPL has been one of the best performing power plants in the country in terms of assured and consistent returns on

FASTEST-GROWING

Emerging Companies

Sanjay Sagar
Joint MD & Chief Executive

RAGHIT GOSWAMI

REVENUE:
₹1,889.30 crore

NET PROFIT:
₹157.31 crore

THREE-YEAR CAGR:
69.49%

THREE-YEAR AVERAGE TOPLINE GROWTH:
73.99%

investment, with a turnover of around ₹1,900 crore.

There are many reasons for RWPL to become profitable. One, the entire output of 1,080 MW is purchased by the state government. Two, unlike most power plants, it operates on a cost-plus-tariff-based structure under Section 62 of the Electricity Act, where the company gets to charge a price that factors in the cost as well as a certain return, given its capital-intensive business model. Three, and the most important of all, is that unlike coal-starved power plants, RWPL has adequate fuel supply – two pit-head lignite mines in neighbouring Jalipa and Kapurdi, having 375 million to 380 million tonnes of reserves, feed its plants, while the company's annual requirement is a mere nine million tonnes.

RWPL uses circulating fluidised bed combustion (CFBC) technology, which allows the use of lignite, a low-calorific coal with high sulphur and moisture levels. Experts say the technology requires higher investment of about $1.1 million per MW, compared to $ 0.76 million per MW for coal-based power plants. "The RWPL model, which has an assured and steady return over the project life, should be considered the ideal model for power plants development in India," says Sanjay Sagar, Joint Managing Director and Chief Executive of JSW Energy.

In 2011/12 and 2012/13, RWPL's plant load factor (PLF), which determines a plant's performance, fell to below the 80 per cent level due to low demand from utilities, says Abhinav Sharma, Analyst with HDFC Securities. However, in 2014/15, the average PLF went up to 86 per cent compared to the all-India average of 61 per cent.

JSW Energy had acquired the company in 2005 from the family of the Maharaja of Jaipur, late Bhawani Singh, to build the plant at a total investment of ₹10,000 crore. Around 10,000 workers weathered the extreme heat and cold conditions to commission the eight units of 135 MW, each, by 2013. In a first for a power plant in India, a dedicated 185-km pipeline was also constructed to source water from the Indira Gandhi Canal.

"With the success of the plant so far, JSW Energy has sent a proposal to the Rajasthan Government to expand the plant capacity by another 600 MW," says Sagar. ▶

Interview with Sanjay Sagar of Raj West Power at businesstoday.in/emergingcos2015-rajwest

3 **ADANI GAS**
RANK

Propelling Ahead

ADANI GAS HAS MANAGED TO REDUCE DEBT DESPITE SPENDING HEAVILY ON EXPANDING THE NETWORK. By NEVIN JOHN

Adani Gas, a wholly owned subsidiary of Adani Enterprises, has rarely looked back in the race to expand its city gas distribution network. Its revenue rose at 38.63 per cent compounded annual growth rate between 2010/11 and 2013/14, though net profit remained ₹40-50 crore during this period.

The company, led by CEO Rajeev Sharma, is implementing gas distribution projects in various cities for industrial, commercial, domestic and transport sectors. It has been focusing on expansion of network, especially outside Gujarat, and addition of customers. Its aim is to be among India's leading gas distribution companies.

Adani Gas has, in the last four years, completed 410 km steel pipelines and 4,100 km polyethylene pipelines (until 2013/14). It owns and operates city gas distribution networks in Ahmedabad and Vadodara (Gujarat), Faridabad (Haryana), Khurja and Lucknow (Uttar Pradesh) and Jaipur and Udaipur (Rajasthan).

In addition, a consortium of Adani Gas and Indian Oil Corporation is developing city gas distribution networks in Allahabad and Chandigarh. The consortium has also bagged a contract to build a network in Ernakulam, Kerala. The company supplies piped natural gas to household and industrial customers and compressed natural gas (CNG) to automobile users. In 2014, it had 63 CNG stations in Gujarat and Haryana and served 850 industrial units, 1,78,000 households and 1,300 commercial units.

Despite the capital intensive nature of the business, the company has lowered its debt by almost ₹100 crore in three years until 2013/14 to ₹397.54 crore. This was thanks mainly to a 48 per cent rise in profit before depreciation, interest, tax and amortisation to ₹171 crore during this period.

To prepare for the next phase of growth, the company has re-formulated its 2020 vision. Adani Gas, say company executives, wants to be known for its speed of execution and quality of operation. ▶

Rajeev Sharma
CEO, Adani Gas

REVENUE:
₹1,631.4 crore

NET PROFIT:
₹47.54 crore

THREE-YEAR CAGR:
38.63%

THREE-YEAR AVERAGE TOPLINE GROWTH: 40.46%

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IHSEDU AGROCHEM
RANK 1

GROUP: SUBSIDIARIES/JVs
SEGMENT: REVENUES ₹500-1,000 CRORE

Castor Oil Czar

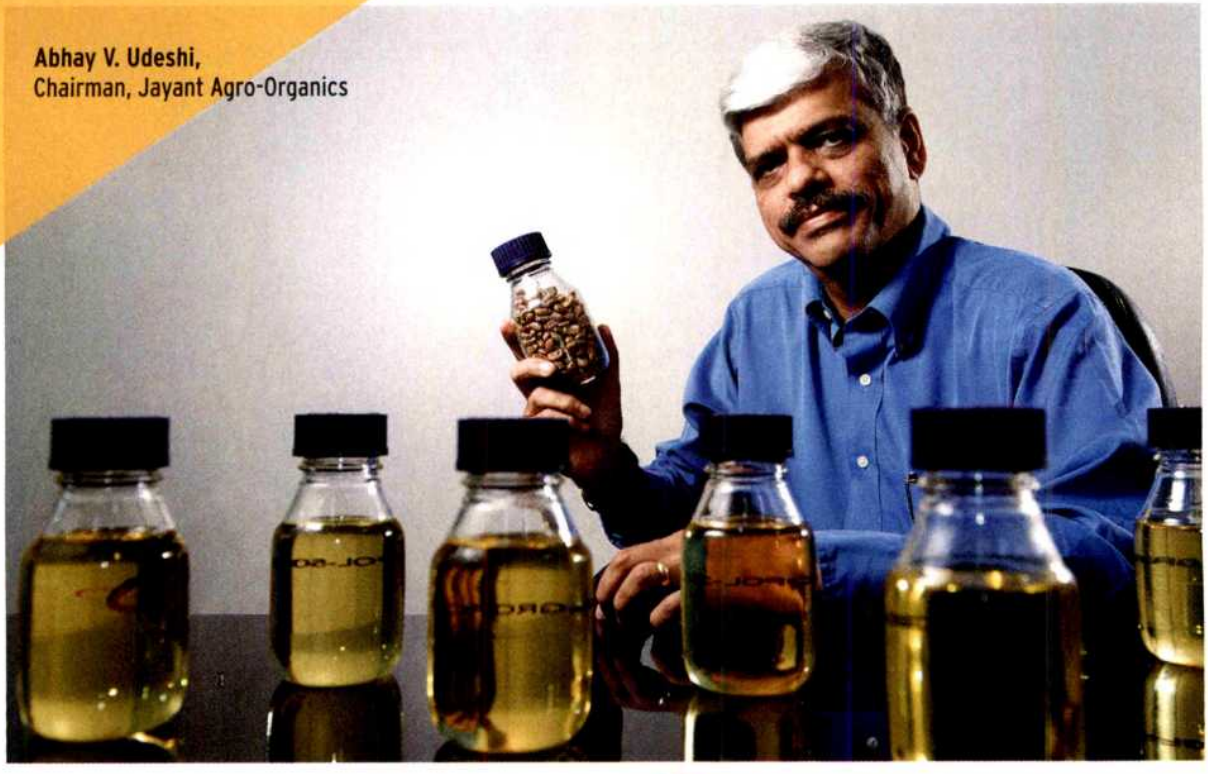
MARKET LEADER IN CASTOR OIL, IHSEDU AGROCHEM IS NOT RESTING ON ITS LAURELS.

By P.B. JAYAKUMAR

Ihsedu Agrochem Pvt Ltd (IAPL) – the name sounds like that of a Japanese joint venture. It is not. "Just reverse the letters of my surname, and see what you get," says Abhay V. Udeshi, laughing. Udeshi is Chairman of Jayant Agro-Organics Ltd (JAOL), IAPL's parent. IAPL produces castor oil and castor oil derivatives, while JAOL makes castor oil-based chemicals and specialty chemicals. IAPL contributes over half the turnover of JAOL.

In 2002, JAOL bought a crushing unit in Banaskantha, Gujarat, from Gujarat Agro Industries Corporation. Two years later, IAPL came into existence when it was hived off. "It was a conscious decision to divide the business into two," says Udeshi. "It ensures focus on efficiencies and competitiveness." The plant was later fully modernised and its castor seed crushing capacity increased in stages from 100 to 1,200 tonnes per day. "Our capacity utilisation is about 900 tonne," Udeshi adds. IAPL had revenues of ₹978.99 crore in 2014/15, up from ₹945.62 crore the previous year.

India is a global giant in castor, supplying about 85 per



Abhay V. Udeshi,
Chairman, Jayant Agro-Organics

RACHIT GOSWAMI

Interview with Abhay V. Udeshi of Ihsedu Agrochem at businesstoday.in/emergingcos2015-ihsedu

cent of the world's needs. It produces 1.3 million tonnes castor seed annually from which around 600,000 tonnes oil is extracted, valued at around ₹4,500 crore. Unlike other plant-based oils, castor oil is not a vegetable oil and is largely used for various industrial applications in the chemical and oil industries. Engineering plastics like nylon, lubricants, paints and pharmaceuticals are some of its biggest consumers.

India's global dominance makes IAPL a global giant too, with the company providing about a fourth of the world's castor oil. Its main rivals are Adani Wilmar and Gokul Refoils & Solvent. "The industry in India is a small, closed ecosystem involving farmers and oil producers," says Udeshi. JAOL, too, is one of the largest specialty chemicals producers in the world. Curiously, its domestic rivals are few as 90 per cent of the value addition in castor oil by the specialty chemical industry takes place overseas.

JAOL was set up in 1992, though its owners were in the oil business for 40 years before that. In 2002 – the same year the castor crushing unit was acquired – it separated from Jayant Oil Mills, following a split between the Udeshis and their joint promoters, the Kapadias.

REVENUE:
₹945.62 crore

NET PROFIT:
₹3.61 crore

THREE-YEAR CAGR:
46.93%

3-YEAR AVERAGE TOPLINE GROWTH: 70.54%

While Jayant Oil Mills went to the Kapadias, Abhay Udeshi's father Vithaldas Udeshi took over as Chairman of JAOL and remained so till his death in 2013, after which Abhay took over. The same year, French company Arkema, the world's biggest buyer of castor oil, acquired a 24.9 per cent stake in IAPL, investing nearly ₹30 crore. There are plans to make many more industrial and specialty grades of castor oil. "The industry has been facing a period of stagnation with intense competition," says Udeshi. "The solution is to develop innovative products and new processes to maintain our leadership, which is why we brought in Arkema."

Analysts have applauded the move. "Through this JV with Arkema, Jayant Agro and its subsidiary Ihsedu will further consolidate their positions in the castor oil market as leading, consistent and reliable suppliers to the world market," says an HDFC Securities note. Indeed, JAOL is becoming increasingly proactive – it also set up another joint venture, Vithal Castor Polyols, with two Japanese companies, Mitsu Chemicals and Itoh Oil Chemical, to make polyols, a substitute for polyurethene (foam). Udeshi hopes to double JAOL's turnover by 2020. ▶

IL&FS EDUCATION & TECHNICAL SERVICES
RANK

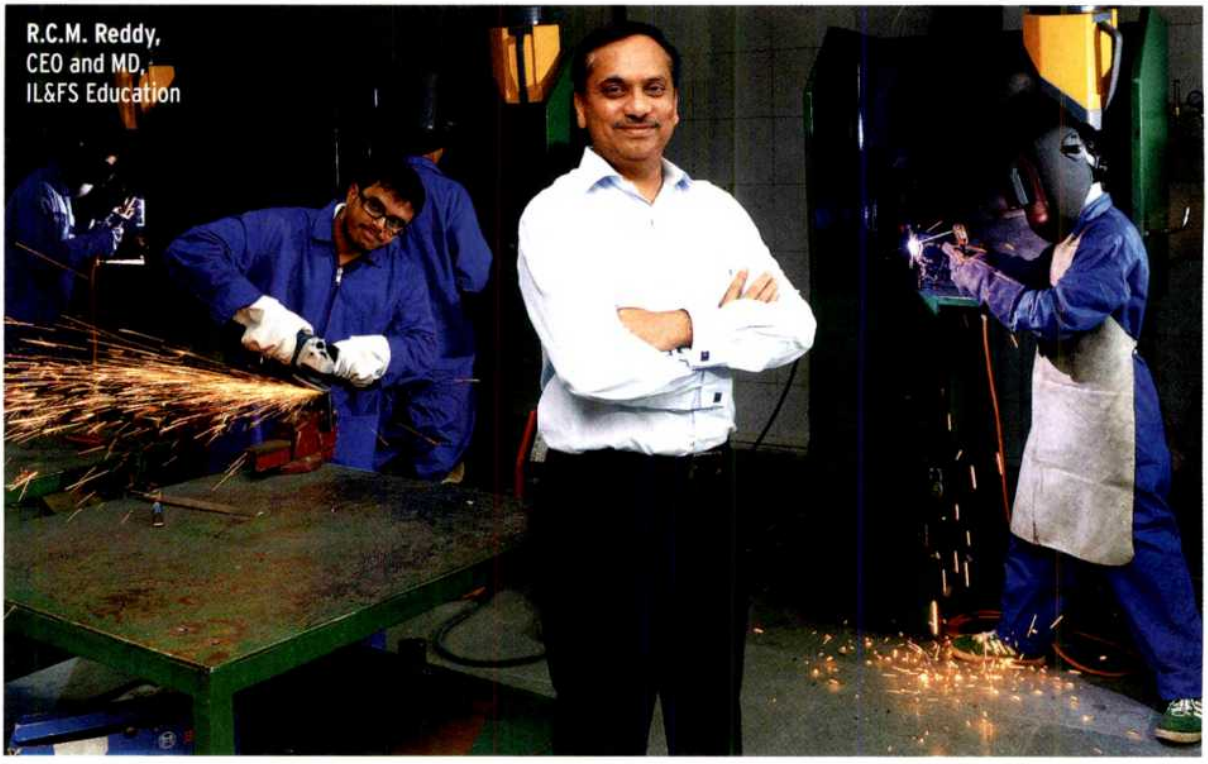
Teach and Earn

IL&FS EDUCATION IS THRIVING, THANKS TO GROWING AWARENESS ABOUT THE NEED FOR COMPUTER EDUCATION AND SKILLING.

By SARIKA MALHOTRA

The institute is located in the heart of Delhi's largest industrial cluster, Okhla. Fittingly so, as it is an institute that imparts skills – some of the very skills the industries surrounding it require. It is one of 45 such institutes run across the country by IL&FS Skills, a unit of financial group IL&FS's social infrastructure arm, IL&FS Education and Technology Services. It runs them in conjunction with the National Skill Development Corporation (NSDC). The Okhla building – where around 1,000 students have been trained annually since 2012 – has been provided by a garments exporter, Akriti Apparels, and using it is part of IL&FS Skills' business strategy to remain asset light. "We try to leverage existing infrastructure by partnering with the government or private companies," says R.C.M. Reddy, CEO and

FASTEST-GROWING
Emerging Companies


R.C.M. Reddy, CEO and MD, IL&FS Education

SHEKHAR GHOSH

REVENUE:	NET PROFIT:	THREE-YEAR CAGR:	THREE-YEAR AVERAGE TOP-LINE GROWTH:
₹629.91 crore	₹28.32 crore	51.83%	68.85%

Managing Director, IL&FS Education. "We believe the public-private-partnership (PPP) model is as relevant in building social infrastructure as in core infrastructure."

IL&FS Education began as Schoolnet in 1997, adding two subsidiaries, IL&FS Skills and IL&FS Clusters, in 2011 and 2006, respectively. Its success is mainly due to its early adoption of the PPP model in the social sector, as government budgetary allocations for education – especially computer education – and skilling began rising. Growing private sector awareness of the skilling lacuna and willingness to invest in overcoming it also helped. India Equity Partners took a 26 per cent stake in the company in 2010.

A major PPP venture the company has entered into, for instance, is participation in the Ministry of Human Resource Development's Information, Communications and Technology programme for Schools, begun in 2010 in Gujarat. The service provider has to set up labs, train teachers, develop content, etc, for which the ministry pays it an agreed amount over five years. "We engaged every possible stakeholder and innovated at every step to create a mechanism that ensures success of the project," says Reddy. IL&FS's success led the governments of Bihar, West Bengal, Odisha, Maharashtra and Rajasthan to also seek its services. The company now runs the programme in 18,000 schools. Overall, it has a 27 per cent share in the edutech solutions market, which accounts for 66 per cent of its revenue.

IL&FS Skills, with its skilling institutes, brings in 20 per cent of the revenue. It imparts skills in 17 sectors – various kinds of manufacturing, engineering, construction, services, etc. "IL&FS is one of our top partners with a pan-India presence," says Dilip Chenoy, CEO and MD, NSDC. The company also trains people on behalf of corporate houses, charging ₹5,000 to ₹20,000 per trainee. More than 40 companies have tie-ups with IL&FS Skills to run skilling programmes. "We have built a brick-and-mortar network under which we can create niche programmes for corporate houses," says Reddy. While corporate houses pay 40 per cent of the fee, students pay the remaining amount. "If students are unable to pay, we have tie-ups with agencies for collateral-free loans," Reddy adds. "Or else they can be included as part of the CSR initiative of the company"

Interview with R.C.M. Reddy of IL&FS Education at businesstoday.in/emergingcos2015-il&fseducation

Placement is a key area of success for IL&FS with more than 75 per cent placements. Some employers even pay a placement fee per trainee taken, which is used to offset the course fee the trainee paid. IL&FS Clusters, which brings in the remaining revenue, mainly provides consultancy for setting up and running industrial clusters, with governments – including 17 African governments – corporate houses and international agencies among its clients.

IL&FS Education & Technology Services aims to skill 4 million people by 2022. "In coming years, the thrust on education and skilling, by both the government and corporate houses, can only increase," says Reddy. ▶

Riding the Telecom Wave

SHILPI CABLE HAS GROWN ON THE BACK OF PLAYERS THAT ARE SCALING UP. By TASLIMA KHAN

3

SHILPI CABLES
RANK

SHEKHAR GHOSH

A Shilpi Cable factory at Bhiwadi, Rajasthan

REVENUE:
₹989.37 crore

NET PROFIT:
₹27.99 crore

THREE-YEAR CAGR:
62.16%

3-YEAR AVERAGE TOPLINE GROWTH: 64.03%

Delhi-based Shilpi Cable Technologies has been growing at a rapid pace for the past three years, riding on the crest of the telecom wave sweeping India. Revenues jumped to ₹989 crore in 2013/14 from ₹232 crore in 2010/11 when it went public with an IPO.

Shilpi Cable, part of the specialty telecom cable maker Shilpi Group, started in 2008 with a project for a German company to make high radio frequency cables used to carry signals from antennas in telecom towers to base stations. Today, it employs 1,100 people and makes cables not only for telecom operators such as Bharti Airtel and Vodafone but also for automotive clients like Honda Motorcycle & Scooter India and Mahindra & Mahindra.

"The telecom segment, after the recent completion of spectrum auction procedures, has turned bullish because commitments from all telecom players to invest in infrastructure and networks have increased," says Manish Goel, MD and co-founder of Shilpi Cable.

A major challenge for the company is growing competition, which is leading to pricing pressure. A competitor is Andrew Telecommunication, a unit of multinational giant Andrew Corporation, which started making radio frequency products from Goa. But Shilpi believes decent margins can be generated through differentiated offerings, innovative packaging and reducing scrap generation during manufacturing. Shilpi until recently has been primarily a supplier to businesses. But in the past year, it has forayed into the direct-to-consumer segment with house wires and switches, where players like Havells and Finolex operate. "Given our quality, it won't be difficult to gain some market share at their cost," says Goel. ◆

FASTEST-GROWING
Emerging Companies

How We Did It

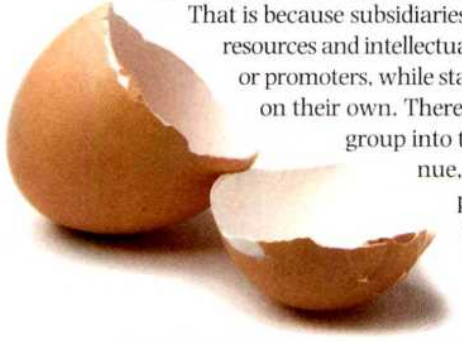
This is *Business Today's* third edition of India's best emerging companies. The methodology has undergone a transformation this time, keeping in mind the changing dynamics and sentiment around us, which is focused on growth. The concept of emerging companies is, essentially, to find companies that have done well in difficult times and augur well for the future. Even as the economy in general and several businesses struggled, which were those mid-sized stars that held up the growth beacon for India?

Accordingly, we decided to look at topline or revenue growth this year. That is because ultimately what matters to business is income growth (and profitability), and all other activities and efficiencies are strategized to bring about greater growth.

Therefore, this year's survey is called India's Fastest-Growing Emerging Companies. We made several other changes. One, listed companies were included, because hidden gems could be found there as well. Two, we changed the revenue benchmarks to between ₹500 crore and ₹6,000 crore. The basic idea: companies with revenues less than approximately a billion dollars, and growing fast, would be the ones to bet on for the future.

The study was done in May 2015 using audited data from CMIE Prowess. At that point, audited data for fiscal 2014/15 was not available for most companies. So, the four years (three growth periods) considered for the study are 2010/11, 2011/12, 2012/13 and 2013/14. All revenue and profit numbers extracted were standalone and taken net of prior period and extraordinary income and expenses.

To enable apples-to-apples comparison, we split up the universe of companies into two separate groups – standalone companies and subsidiaries or joint ventures. That is because subsidiaries and JVs have access to resources and intellectual capital of their parents or promoters, while standalone companies are on their own. Thereafter, we also split each group into three segments by revenue, so the companies compete on a level-playing field: Revenues between ₹500 crore and ₹1,000 crore; between ₹1,000 crore and ₹3,000 crore; and ₹3,000 crore and ₹6,000 crore.



Foreign companies, companies in the BFSI (banking, financial services and insurance) segment, and trading companies were excluded from the study. BFSI and trading companies were excluded because their incomes are handled differently from manufacturing or services companies. Foreign companies were excluded because we wanted to identify Indian emerging companies.

After these eliminations, the remaining companies were taken forward to the next stage. As a first step, data of companies with non-12 month accounting periods – only data for between nine months and 15 months was considered – was annualised, so that all companies could be properly compared.

At this point, several filters were brought in, and companies were eliminated if they:

1. Suffered a loss in 2013/14 – the final year of the study
2. Suffered a loss in more than one year of the three years of the study period
3. Revenues dipped more than 10 per cent in 2013/14
4. Revenues dipped two or more years in the three growth periods.

After all the eliminations, we were left with 730 companies for the final evaluation. We calculated three-year CAGR for each company, split them into the revenue groups and standalone-subsidiary segments, and eliminated companies under the median CAGR in each group.

For the final sets of companies, we calculated the average of the three periods of year-on-year growth, because the average growth can capture the peaks and troughs in between growth periods. The final ranking was done on this metric.

We did two final hygiene checks. (1) Captive subsidiaries – those that did not earn majority of their revenues from external clients – were eliminated. (2) And for companies whose 2014/15 data had become available by the end of the exercise, those that saw revenues dip more than 10 per cent were further eliminated. Even though 2014/15 was outside the purview of the study, it was important to rank companies whose earnings have not dipped dramatically since the study period ended. ◆

Research inputs from Jyotindra Dubey and Niti Kiran

Ranked Among India's Top Medical Colleges

India Today / The Times of India / The Week

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  - Psychiatry
  - Anaesthesiology
  - Radiodiagnosis
  - Community Medicine
  - Pharmacology
  - Microbiology
  - Pathology
  - Bio-Chemistry
  - Anatomy
  - Physiology
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FASTEST-GROWING

Emerging Companies

RANKING TABLE

RANK	COMPANY NAME	TOTAL INCOME (₹ CRORE) ## 2011/12	2012/13	2013/14	3-Year CAGR (%)	Y-o-Y growth(%) 2011/12	2012/13	2013/14	3-Year Average Y-o-Y growth(%)
	STANDALONE COMPANIES Revenues ₹3,000-6,000 crore								
1	Eicher Motors #	1,229.54	2,001.45	3445.73	61.29	49.72	62.78	72.16	**61.55**
2	Serum Institute Of India	1,767.39	2,587.83	3,636.21	51.69	69.65	46.42	40.51	**52.19**
3	Kwality	2,394.69	3,692.99	4,581.24	41.76	48.90	54.22	24.05	**42.39**
4	Wellknown Polyesters	1,730.60	2,111.53	3,514.84	35.19	21.65	22.01	66.46	**36.71**
5	Deepak Fertilisers & Petrochemicals Corp.	2,513.77	2,835.09	4,092.21	33.86	47.34	12.78	44.34	**34.82**
6	International Tractors	2,290.52	2,957.24	3,822.19	25.24	29.53	29.11	29.25	**28.28**
7	JVL Agro Industries	2,967.44	3,821.84	4,354.48	25.80	35.68	28.79	13.94	**26.14**
8	Amara Raja Batteries	2,628.08	3,351.19	3,877.08	25.71	34.65	27.51	15.69	**25.95**
9	Mindtree	1,953.60	2,396.80	3,081.00	25.61	25.67	22.69	28.55	**25.63**
10	Torrent Pharmaceuticals	2,216.03	2,905.00	3,407.79	23.39	22.16	31.09	17.31	**23.52**
	Revenues ₹1,000-3,000 crore								
1	Avanti Feeds	396.71	650.62	1,135.12	75.03	87.40	64.00	74.47	**75.29**
2	Kaveri Seeds Co.	374.88	715.63	1,011.93	62.76	59.73	90.90	41.40	**64.01**
3	PVR	565.70	779.49	1,477.27	52.86	36.79	37.79	89.52	**54.70**
4	APL Apollo Tubes	1,166.41	1,754.83	2,238.23	51.38	80.79	50.45	27.55	**52.93**
5	Goyal Proteins	643.34	1,212.74	1,438.74	43.37	31.78	88.51	18.64	**46.31**
6	Sportking India	763.84	862.62	1,067.22	36.57	82.32	12.93	23.72	**39.66**
7	NCML Industries	1,692.50	1,996.13	2,767.26	38.28	61.71	17.94	38.63	**39.43**
8	Mittal Corp	723.82	968.58	1,355.89	38.98	43.30	33.82	39.99	**39.03**
9	Astral Poly Technik	626.10	900.77	1,173.17	38.85	42.86	43.87	30.24	**38.99**
10	Jubilant Foodworks	1,035.73	1,432.92	1,748.46	36.30	49.99	38.35	22.02	**36.79**
	Revenues ₹500-1,000 crore								
1	Astra Microwave Products	214.15	243.97	551.78	49.16	28.80	13.92	126.17	**56.30**
2	Kamarajar Port	250.22	325.71	526.05	53.47	71.94	30.17	61.51	**54.54**
3	Suven Life Sciences	206.57	259.33	513.62	49.98	35.68	25.54	98.06	**53.09**
4	Arcotech	278.98	413.55	703.98	46.73	25.20	48.24	70.23	**47.89**
5	Falcon Marine Exports	461.19	533.51	920.71	39.42	35.74	15.68	72.58	**41.33**
6	Devi Sea Foods	414.95	451.93	793.64	37.55	36.06	8.91	75.61	**40.20**
7	Wapcos	372.37	586.48	920.23	37.27	4.67	57.50	56.91	**39.69**
8	Cera Sanitaryware	341.19	517.72	701.44	39.34	31.58	51.74	35.49	**39.60**
9	Just Dial	275.22	376.68	501.53	38.77	46.66	36.87	33.14	**38.89**
10	Arvind Remedies	456.85	704.41	966.99	36.77	20.88	54.19	37.28	**37.45**
	SUBSIDIARIES/JOINT VENTURES Revenues ₹3,000-6,000 crore								
1	Adani Ports & Special Economic Zone	2,520.08	3,563.04	4,910.23	35.65	28.11	41.39	37.81	**35.77**
2	IL&FS Transportation Networks	2,912.06	3,567.88	3,655.33	28.99	70.99	22.52	2.45	**31.99**
3	Godrej Agrovet	2,217.25	2,863.56	3,251.62	26.26	31.26	29.15	13.55	**26.65**
4	Larsen & Toubro Infotech	2,979.81	3,633.97	4,662.85	25.60	26.62	21.95	28.31	**25.63**
	Revenues ₹1,000-3,000 crore								
1	GAIL Gas	292.82	735.39	1,001.36	220.56	863.22	151.14	36.17	**350.18**
2	Raj Westpower	531.51	1,229.24	1,889.30	69.49	36.99	131.27	53.70	**73.99**
3	Adani Gas	1,047.43	1,411.63	1,631.40	38.63	71.05	34.77	15.57	**40.46**
4	Afcons Infrastructure	1,656.65	1,953.59	2,807.49	32.80	38.18	17.92	43.71	**33.27**
5	L&T Valves	604.35	700.02	1,043.13	28.03	21.59	15.83	49.01	**28.81**
	Revenues ₹500-1,000 crore								
1	Ihsedu Agrochem	919.82	885.31	945.62	46.93	208.55	-3.75	6.81	**70.54**
2	IL&FS Education & Technology Services	344.49	264.16	629.91	51.83	91.42	-23.32	138.46	**68.85**
3	Shilpi Cable Technologies	463.21	656.63	989.37	62.16	99.65	41.76	50.67	**64.03**
4	Rane NSK Steering Systems	341.22	643.83	591.20	44.14	72.84	88.68	-8.17	**51.12**
5	Jtekt Sona Automotive India	415.17	517.74	666.63	38.52	28.76	24.71	65.53	**39.66**

December ending financials; ##Net of prior period and extraordinary income; Study was conducted for the years 2011/12, 2012/13 and 2013/14
Source: CMIE prowess **Read full methodology on page 106**

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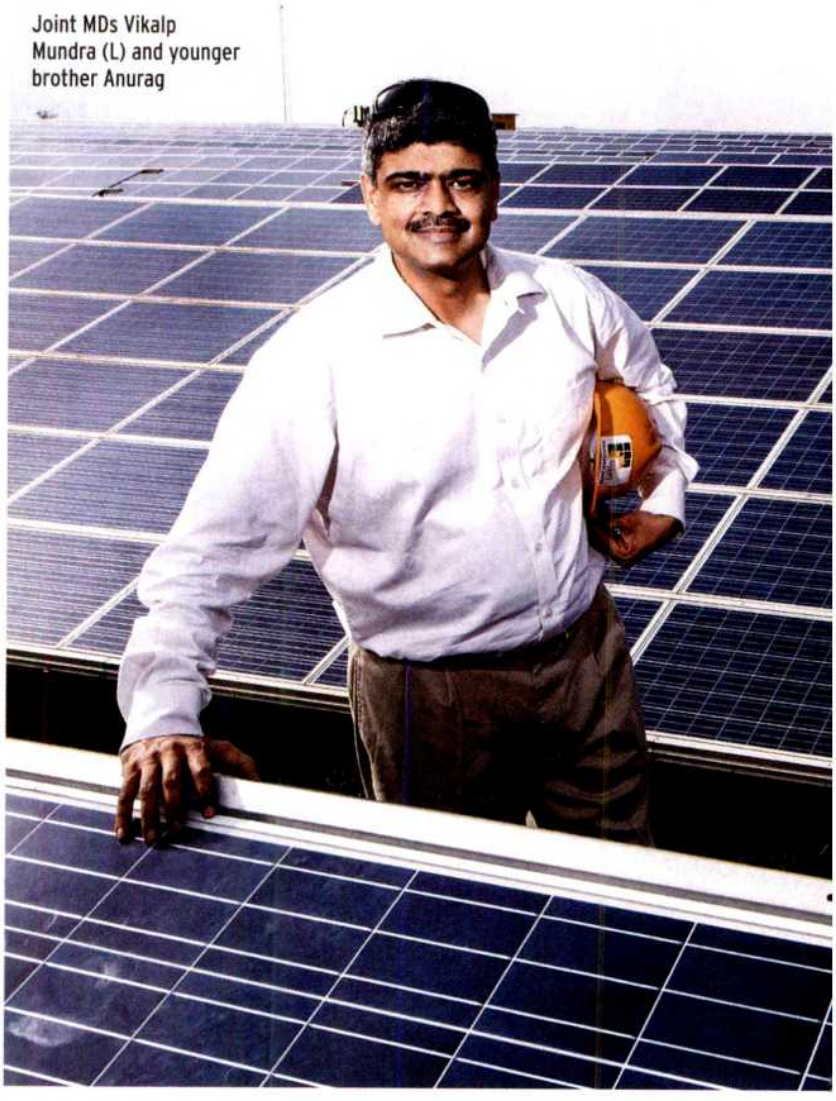
Harvesting The Sun

Ujaas Energy's early foray into solar power helped it almost make it to the ranking, but...

By ANILESH S. MAHAJAN



Joint MDs Vikalp Mundra (L) and younger brother Anurag

In 2010, a chance conversation over dinner with dad Shyam Sunder Mundra convinced Vikalp Mundra to get into the business of solar energy. Mundra senior had set up M&B Switchgears in 1975, and turned it into a ₹35-crore company in 35 years. In the next four years, the company's revenues touched ₹536 crore. An average Y-o-Y growth of 223.65 per cent propelled Ujaas Energy – the company was rechristened in 2013 – to the top of the ₹500 crore to ₹1,000 crore category in *BT*'s fastest-growing emerging companies study. But revenues fell thereafter to ₹113 crore in 2014/15, and Ujaas could not make it to the final list.

Ujaas's business got a big boost when in 2011, then finance minister Pranab Mukherjee withdrew tax benefits from wind-based projects. Solar benefited. Installed capacity across the country jumped from 461 MW in 2010/11 to 2,319 MW in 2012/13. That helped Ujaas clock significant growth. But the company did its own bit, too, to garner that growth.

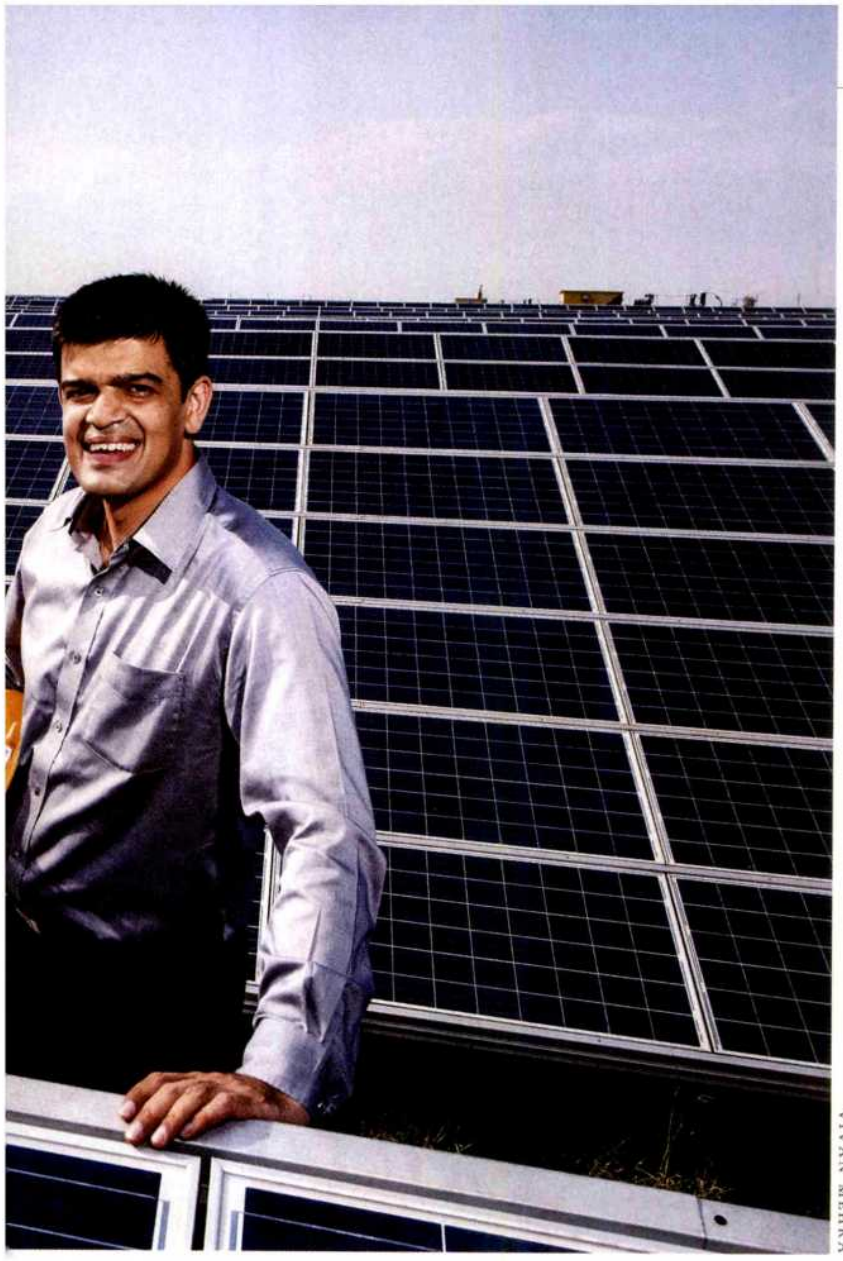
"We were making equipment for transformers and were already there in the distribution side of the electricity business," says Vikalp Mundra, Joint MD, along with younger brother Anurag (Shyam Sunder Mundra is now the CMD). "In 2010, when the first national solar mission came up, we saw an opportunity to forward integrate into generation."

Even so, it was not easy going, as there were few solar power plants then. "To see a working plant at a megawatt size, we travelled to Germany," says Vikalp. "On our return, we decided to set up a two megawatt plant, which became India's first with permissions to trade renewable energy certificates."

Ujaas initially procured solar panels from Indian manufacturers, but soon faced timeline and capacity issues, and switched to a Chinese OEM player. "We make sure that the quality, specifications remain as per our requirements, design," added Vikalp.

The company now is setting up solar parks in Madhya Pradesh, with a portfolio of 119 MW, plus 2.5 MW of rooftop projects. It has a 50-MW project with NHPC, along with commitments to set up 30 MW of solar plants. It has power purchase agreements with state distribution companies, and since solar generators can sell electricity on open access without wheeling charges, Ujaas has a combination of both types of projects.

"While going through our first power plant, we realised there would be many in the country with the



VIVAN MEHRA

money to put up a solar power plant, but not the wherewithal to execute it," says Anurag. Ujaas offers turnkey solutions. The infrastructure is common, and it operates solar plants at these parks for investors ranging from jewellers to real estate players to small traders. These investors, if they are making profits, seek accelerated depreciation and other tax benefits.

In 2014/15, revenues slumped, thanks to a slow market. "The growth was halted as the erstwhile UPA government pushed the anti-dumping case of domestic manufacturers," says Rahul Gupta, CEO of Rajasthan-based Rays Power Expert, Ujaas's nearest competitor with revenues of ₹254 crore in 2014/15. "The certificate trade also remained slow."

But things have started changing. Data from certificate exchange India Energy Exchange show a jump of certificates issued from 45,202 in April to 292,000 certificates in May 2015. Gupta says this was propelled by an apex court directive to generating companies to comply with renewable purchase obligations.

And the opportunity opened up further in mid-June when the Union Cabinet cleared the plan to set up 100 GW solar capacity in the country. There is a plan to set up 17 solar parks in the country, and both Madhya Pradesh and Rajasthan are at the centre of this plan.

"It's a business opportunity for us. The government just facilitates a part of the land acquisition, and will call a private partner to develop it. We have experience of doing it on the ground," says Vikalp. Anurag adds that the 100-GW plan will help Ujaas grow its operations seven times in the next five to seven years.

Meanwhile, the margins are beginning to get squeezed. The existing market for models like solar parks allows margins of eight to 10 per cent. "But today, the market size is increasing. Earlier, people were talking about MW-size parks, now the orders are of 20 MW, 50 MW and bigger," says Vikalp. "In absolute terms, the margins are increasing, but in percentage terms the margins are coming down to five to eight per cent."

> "Earlier, people were talking about MW-size parks, now the orders are of 20 MW, 50 MW and bigger"
>
> **VIKALP MUNDRA**, Joint MD

Besides, the government's 100-GW target would also mean it would look at investments from big companies with easier access to capital and equipment. Clearly, Ujaas Energy will need to gear up for bigger competition. ◆

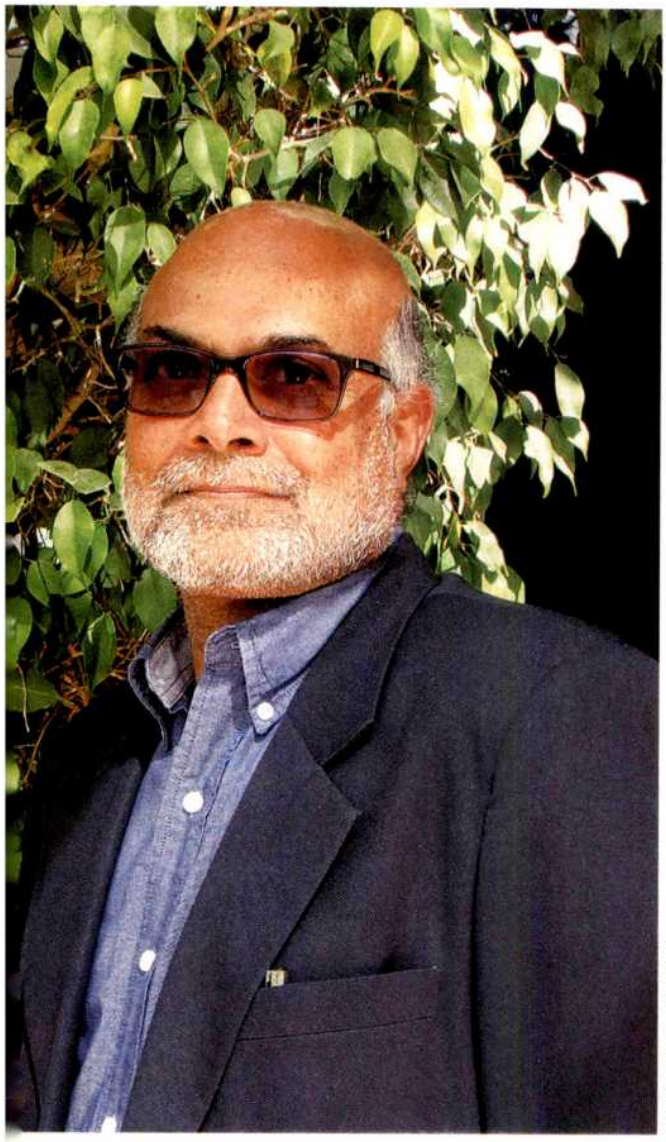
@anileshmahajan

"It's time Indian agriculture policy thought about nutrition rather than productivity"

PRABHU PINGALI, *Professor, Charles H. Dyson School of Applied Economics and Management at Cornell University, and Founding Director of the Tata-Cornell Agriculture and Nutrition Initiative (TCi), speaks to* **SARIKA MALHOTRA** *about the skewed food security approach in India, the agriculture policy, and the debate around GM crops. Excerpts:*

Indian farmers are still dependent on the vagaries of nature...

The problems are multiple. We should look at the situation in terms of where the irrigated and rain-fed areas in the country are. The Green Revolution areas such as Punjab, Haryana, and coastal Andhra traditionally had large-scale



SARIKA MALHOTRA

irrigation systems, which are degrading rapidly... groundwater depletion is very high. So, some risks are less due to monsoons and more due to poor maintenance of existing systems. That problem is related to the overall food policy. It is related to this very high emphasis on procurement of staple grains for food security. Because of that, India has procurement prices and the machinery of pulling rice and wheat out of the farms into the FCI-driven food distribution system. That's putting a lot of pressure on the Indian system. I am not suggesting one should do away with this system, but one has to think what the optimum level of stock should be in the food security system. India has some 60 million tonnes of stocks. Do you really need 60 million tonnes? Can you come down and reduce the pressure on the food system?

The second aspect is, if there is a way to be more efficient in production of rice and wheat with irrigation water. Can you relook at the ways water pricing takes place in India... the fuel, diesel subsidy... which makes it so cheap to pump water from the groundwater system? Looking at that more carefully allows you to improve the overall sustainability of that irrigated system... which is going to be a big problem as you move forward, as groundwater depletion takes place.

In rain-fed areas, especially in eastern India, there is a big chance of improving productivity by allowing for fairly rapid expansion of small tube well systems. In eastern India you do not have a similar situation of depleting groundwater problem, and investments in large-scale irrigation are small. Here, small farmer-based irrigation systems can make a big difference in managing drought and low rainfall conditions. You see a lot more of that in Bihar today. You can see an expansion of this in the rest of eastern India, Jharkhand, Odisha...

What should be the way forward for optimum utilisation of existing resources?

Investment in small farms is one way to move forward. Then you have to think what crops should be grown in which areas. Traditionally, eastern areas have been growing rice and some maize and pulses. One can look at ways through which one can improve drought tolerance of grains. These technologies are available today and converting to these crops will be useful. But I would recommend to go beyond staple crops, and look at crops that have high market demand. For instance, lentils and pulses. Prices of lentils are going through the roof and India still does not have a strategy on how to manage improvements in pulses production. If you can manage higher productivity of pulses and expand the area of pulses – and eastern India is one of the best areas to do that – then you are addressing both the farmer income problem and pulses supply problem at the same time. Also, the water requirement for pulses is much lower than rice, and these crops would be more tolerant to weather and drought conditions than rice would be. That's an opportunity India needs to look at more carefully.

Where does this initiative have to come from?

It has to come from all levels. First from the government. Whenever you talk about food policy in India, only rice and wheat are considered. We need to reach a point where government policy has a much more balanced view of what a food policy and a food system should look like. The food system in India is very diverse; the food policy is very narrowly focused on a few crops. People will tell you that we have a horticulture mission, a livestock mission and all, but they do not translate into the same level of policy commitment to increase production. The

policy commitment for maintaining rice and wheat supplies is very high. The policy commitment for increasing livestock productivity is not of the same level. Policy commitment includes procurement policies, price support policies, credit, input supply, R&D.

What do you think about the current agricultural policies in India?

It is time the Indian agriculture policy thought about nutrition rather than productivity. The Food Security Act is focused on staples, which is important, but staples are not the only part to food security. Food security requires you to have a very balanced food system. Because the Act and the agriculture policy are so focused on staples, you are not creating a balance in the food system. This is my biggest concern about the Indian food policy... vegetables, pulses and lentils, which are so important for overall nutritional security, don't get the same attention as the staples. Refocusing our attention relative to that should be the number one priority.

> "All the serious evaluations done on GM crops have shown no health and environmental effects"

Do you think India can make this transition?

India can make this transition now. India is very comfortable on the staples... both on supply and productivity side. Even if you look towards the future with climate change impact, India's ability to meet her staple crops demand is very good. India's ability to meet demand for non-staples is not good at all. Most of the modelling that is being done is not looking beyond the staples. Nobody asks the question what's the impact of climate change on vegetables, milk production... someone needs to ask that question and think about a broader strategy.

There is a never-ending debate on genetically-modified (GM) foods. What is your take on them?

There are a lot of advantages in GM foods. Take the instance of Golden Rice – Vitamin A rich rice – that can potentially remove night blindness among children. It can address the problem of Vitamin A deficiency among poor populations... There is similar potential for other Vitamin-enriched staple grains that can be done through biotechnology. There are big areas that biotechnology can address, it can come up with plants that are much more tolerant to drought and floods...

All the serious evaluations done on GM crops have shown no health and environmental effects. For some reason public perception and some groups have been against GM crops, and that has prevented movement of these crops in the mainstream agriculture system. The only GM crop in India is Bt cotton; globally there are Bt corn, canola and soybean. And then there are smaller crops... brinjal, papaya. Bt brinjal is an interesting story as it was developed by an Indian company, but it could not be released in India and is being released in Bangladesh. The potential of GM is very big.

Also, we should know that biotechnology is more than just GM crops. Biotechnology is also a better understanding of genomics, genetic structures and improved efficiency of existing breeding systems, and some of that gets lost in the debate. I am in favour of using biotechnology as a tool to address the needs of the poor. If we know that we have viable tools for needs of the poor and we are not using them, we should judge our own ability to address these chronic problems of hunger, malnutrition and our ability to have a healthy and productive population.

What is the global position on GM crops? The West is advocating going organic...

I don't think there is a global position. Different countries have different views on the subject. The local organic food market is now pretty much all over the world. It's a niche market for people who can afford higher-priced organic food. Having said that, most consumers would like to see pesticide-free or lower-pesticide products. What's interesting is that many GM crops, such as Bt cotton, use significantly lower amounts of pesticides/insecticides than non-Bt cotton. But for some reason that does not get featured in the debate. There is a disconnect that one needs to think through. However, in terms of looking at the bulk commodities such as corn, rice, cotton... the more traditional way of looking at agriculture – what we call modern agriculture – will remain. I don't see the movement of going organic taking over the traditional form. There will be a balance among the different commodities and also consumer preferences. ◆

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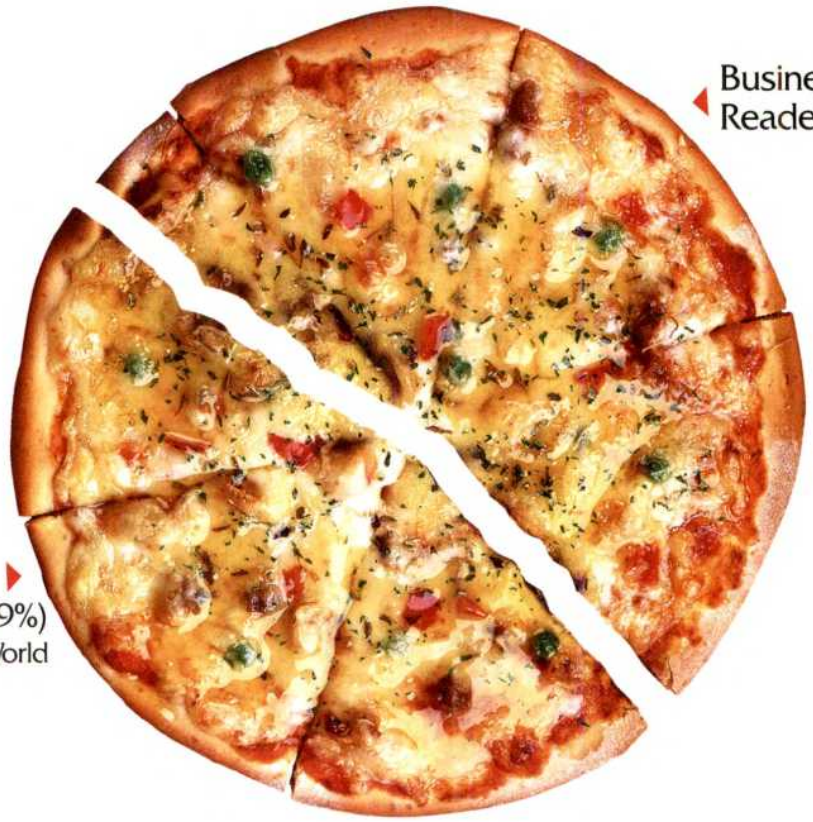

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FOR MANAGING TOMORROW

Source IRS Survey 2014

By K. K. TIWARI

Regulate All Taxi Services

Why we oppose mobile app-based private taxi aggregators

We are not against competition or providing better taxi services. In fact, we never had any objection against radio taxis such as Meru, TabCab and EasyCab. Our objection is only against 'illegal' private taxi aggregators, or mobile application-based taxi services, such as Uber, Ola Cabs and TaxiForSure.

Unlike black and yellow (*kaali peeli*) taxis and radio taxis, private taxi aggregators like Uber don't have the relevant permit or licence to operate in the city. We have a permit from the state transport department. Similarly, Meru, TabCab and EasyCab have been registered as radio taxis under the Fleet Taxi Scheme 2006. The guidelines for radio taxis clearly state that while these fleets can operate, the number of taxi permits in the city will remain fixed. They are actually using our (*kaali peeli* taxis) lapsed permits. They have bought these permits from us. These permits, which lapsed between 1997 and 2010, were transferred to Meru, TabCab, etc. So, there is a valid reason for the state government to regulate taxi permits.

But when you look at the private taxi aggregators, there is no fair play. They are operating without any permit or licence. The fare charged by them directly impacts us. Either you register all or none. We are not against technology as portrayed in the market.

The taxi aggregators are also engaging with players that operate under the All India Tourist permit. The tourist permit mandates that a journey must be for a minimum of 80 km or eight hours. We have no problem if they adhere to this 80 km/8-hour rule. But these tourist cab owners via taxi aggregators are doing short-distance runs within the city. They are killing our business. You cannot buy a rifle if you are given a pistol licence. Let these private taxi aggregators also take a licence for running taxi operations.

Today, our taxi fleets are monitored by the government. If the government wants to allow taxi services through mobile applications, then why are they regulating our permits? Our meters are sealed and checked every year in a government laboratory. Who checks the mobile meters of these taxi aggregators to see whether they are tampering with it or not? There is no transparency. There is nobody to see if they are indulging in any malpractice, while any traffic constable can stop us and ask hundreds of questions.

Look at the irony. Taxi aggregators can put as many taxis on the road as they want if there is demand, but there is a restriction on us or the likes of Meru. Why can't the government give us permits? In fact, the state government hasn't given a single permit for *kaali peeli* taxis since 1997. As a result, the taxi fleet has reduced from 65,000 to 45,000 in the last two decades. Ideally, the number of permits should have increased over the years to cater to the burgeoning population.

There is also a security issue with mobile aggregators. This issue came to the fore when a girl was raped in Delhi in an Uber taxi. It took almost 48 hours for the police to reach the office of the company. We also spent weeks trying to locate the Mumbai offices of these companies. The GPS network operates till the driver keeps the mobile switched on. The moment he switches off, nobody can trace him.

There are thousands of migrants who have put in their hard-earned money or borrowed from banks to buy a taxi. There is a livelihood issue. They will protest on the streets if the government treats them unfairly. We are planning to protest in Mumbai. We are getting support from other unions. We are all united and will continue our fight against taxi aggregators to ensure a level playing field. ◆

As told to Anand Adhikari

***K.K. Tiwari** is President of Swabhiman Taxi Union, Mumbai*

Busting the Bugs

Bangalore-based Avekshaa Technologies detects and resolves software problems to help companies improve performance. By GOUTAM DAS

Around 2007, IT services bigwig Infosys started a 'Performance Engineering and Enhancement' practice. The idea was simple. Customers were irked at the quality of applications being delivered. The group had to ensure that there were no last-minute surprises – all large programmes needed monitoring to be made failure-proof. Over the next four years, Infosys managed to save at least 20 projects that were nearly doomed, says Rajinder Gandotra, an Associate Vice President with the company at the time, who started the group.

By 2011, however, Gandotra had left Infosys to set up his own outfit along with three others on similar lines. He called his start-up Avekshaa, a Sanskrit word that means care, courtesy and attention. It was a niche area but one where a lot of money could be made. There was an eye-popping number he spotted – a market analysis he came across said enterprises collectively lost $73 billion annually because of technology performance issues. That would translate into an $8.5-billion opportunity for companies such as his, or those that can help corporations prevent IT failures.

A bank's core banking application, for instance, would be a complex mash of many layers of technology – networking, hardware, storage, application server, web server, middleware, products and the database. Multiple vendors supply the technologies, and the office of the bank's Chief Information Officer integrates all these stacks. Avekshaa, Gandotra told himself, would step in with its solution that detects problems, predicts failures and enhances the IT systems before they go live. He would help large corporations reduce risks as they adopt new technologies and products or do tech upgrades.

There are many ways to describe Bangalore-based Avekshaa today. Broadly, the market it operates in is called 'assurance'. But one could look at Avekshaa as a consulting firm, a services company or a platform provider. Besides people who consult and re-engineer processes – there are 52 employees – the company has its own intellectual property and products. It uses software modelling techniques that can foretell if an IT architecture being developed will fail when it is only 10 per cent done.

Gandotra is not the typical hoodie-flaunting tech start-up founder just out of college. He is 48 years old, talks a lot, sports a thick moustache and smiles often. When asked to describe what he does, Gandotra comes up with a geeky response: "We are a highly specialised IT solutions company providing P-A-S-S." Short for 'Performance, Availability, Scalability and Security', without P-A-S-S, no application can work well.

The company has covered quite some ground since it started. It now has 23 customers ranging from banks to manufacturing companies – IndusInd Bank, ICICI Bank, HDFC Bank, Axis Bank, Cox & Kings, Tata Motors, and Hewlett-

QUICK FACTS

FOUNDED:
February 2011

FOUNDERS:
Rajinder Gandotra,
Arun Ramu,
Ashutosh Shinde,
Ramnik Singh Tara

FUNDING:
$500,000

CUSTOMERS:
IndusInd Bank,
ICICI Bank,
HDFC Bank, Axis Bank,
Cox & Kings,
Tata Motors,
Hewlett-Packard

REVENUE:
₹6.7 crore in 2014/15

"We are a highly specialised IT solutions company"

RAJINDER GANDOTRA
Founder & CEO, Avekshaa

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Packard, among others – and raked in revenue of ₹6.7 crore in 2014/15. Along the way, it picked up some awards – NASSCOM's Emerge 50 2013 Awards, for instance. It ranked 250 on the Deloitte Technology Fast 500 Asia Pacific 2014 rankings, whose pecking order is decided on the basis of revenue growth over three years.

Avekshaa's first project was for a large private bank. Customers typically receive an SMS after they withdraw money from an ATM. "This SMS is expected to come in two seconds, which is part of the security implementation. However, customers of the bank were getting the SMS after a minute, two minutes, sometimes 10 minutes," Gandotra says. "The application required code changes and configuration changes. Within six weeks, we solved the problem," he adds.

Another large project the start-up executed was for IndusInd Bank. The lender had a core banking application from Misys, the British financial software company, but wanted to switch to Infosys's Finacle core banking application. That decision was fraught with risk. "It is like changing an engine," says Gandotra. Systems could have slowed and the queue on the call centre would have grown longer. There was a possibility that ATMs might not be able to dispense money in time, while credit and debit reconciliations could have spilled over to the next day. "It was a serious risk because it could have impacted customer service, employee morale, productivity and, of course, the bank's image," the founder explains.

Avekshaa reviewed Finacle's software code. "We found about 20 issues in the software code, 23 issues in the middleware, and more than 18 issues in the database. There were issues in the operating system configuration. One issue was that the log-in was taking time for the banker. In all, we identified 83 problems," says Gandotra. Avekshaa resolved the problems to help the bank implement the new system. Paul Abraham, Chief Operating Officer of IndusInd Bank, acknowledges the start-up's efforts. "Finacle core banking implementation was one of the most significant steps in the bank's transformation journey. With able support from Avekshaa, the transformation journey was seamless," he is quoted as saying in a testimonial on Avekshaa's website.

Sainath Sherigar, Technical Program Manager for Information Technology at travel company Cox & Kings, also vouches for Avekshaa. Cox & Kings called the start-up for help in December last year when the company's primary website and the booking application became slow. Avekshaa optimised the code and made configuration changes in the technology layers to improve the response time of the application. The issue, says Sherigar, was resolved in 10 weeks.

"Avekshaa has the potential to be a high-end consulting company using its IP to reach $100 million in revenues by 2020"

V. BALAKRISHNAN
Director & investor
Avekshaa

What is the way forward for Avekshaa? International expansion is on the cards. The company is starting operations in the US and Australia. That means the company, which was thus far running a lean organisation, would require more funding. Avekshaa is funded by Karnataka Information Technology Venture (KITVEN) Capital Funds and V. Balakrishnan, former CFO and board member of Infosys, who holds about one per cent of the start-up. In all, Avekshaa has raised just half a million dollars. "This is a very specialised area with little competition. Avekshaa has the potential to be a high-end consulting company using its IP to reach $100 million in revenues by 2020," says Balakrishnan.

Nevertheless, competition in global markets could be fiercer. While large Indian IT services exporters like Infosys and TCS may have assurance practices to ensure quality of their internal projects, Avekshaa's real competition could be firms like the US-based Compuware. "Thus far, we have encountered them as competition once or twice," says Gandotra. "The problem is very large. There is enough meat for everybody." ◆

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The 'One' Approach

What's prompting diversified conglomerates like UTC and Sony to fold back businesses into one entity and how is it working out?

By **CHITRA NARAYANAN**

Gaurang Pandya at the UTC Carrier Aircon plant in Gurgaon

Diversification or Diworsification? A huge fallout of the recent global financial crisis is the way diversified conglomerates have looked at their varied portfolios and decided to reorganise. In 2011, as Japan's beleaguered Sony Corporation stared at an annual net loss of $6.4 billion, it knew something needed to drastically change. Sure enough, new CEO Kazuo Hirai came up with a 'One Sony' recovery plan, trying to pull cameras, films and insurance all together. "We don't want all these kites with no strings flying all over the place," he said, as he set about reorganising Sony into an integrated whole, even as analysts wondered how entertainment and consumer durables could be aligned together.

Around the same time, in America, PepsiCo unleashed its 'Power of One' strategy, bringing together its food and beverage units. Even as critics questioned whether the move would diffuse focus on the revenue generating sodas, CEO Indra Nooyi insisted that "PepsiCo's value is maximised as one company". The rationale for the integration she gave the shareholders: it would provide compelling scale and cost leverage with annual cost savings pegged at $800 million to $1 billion through shared procurement and joint advertising, among other things.

VIVAN MEHRA

PepsiCo unleashed its 'Power of One' strategy bringing together its food and beverage units. The rationale for the integration: it would provide compelling scale and cost leverage with annual cost savings pegged at $800 million to $1 billion

Meanwhile, aerospace to consumer durables to building systems behemoth United Technologies (UTC), with brands like Carrier and Otis elevators in its fold, also began the lengthy process of integrating as one company. Over the years, UTC, through acquisitions, had got into all kinds of segments. Between 2008 and 2011, UTC took a good hard look at its portfolio, decided what was core and what not, and began divesting non-core areas, finally consolidating its businesses into two segments – Building and Industrial Segments (BIS), and Aerospace. All the businesses – air-conditioning, fire and security, elevators – that had something to do with buildings, were integrated into one company – UTC Building and Industrial Systems.

"In the past, our business in UTC, whether it was Carrier or Otis or the fire security business, operated individually in the market

space. What happened since 2008/09 was as we grew in size as an organisation globally, there were a number of acquisitions done in the global platform. If you look at the fire and security business of ours in isolation, we went from pretty much zero to around $7 billion in just six to seven years. Sixty-plus acquisitions globally drove that. Similar things were happening on the Carrier business side too," describes Gaurang Pandya, President, UTC Building and Industrial Systems. Clearly, a new approach was needed to manage this growth.

For UTC, the focus of the integration of all its building solutions companies was how it would simplify things for its consumer, helping it market more efficiently to one common consumer. For PepsiCo, too, this was one of the driving reasons to integrate beverages and snacks as the consumer for these products, it reasoned, was one, and it could scale better as one entity.

For different corporations, there are different imperatives for integration, but the thought processes driving the unification for all was the same. Integration would help cut costs. It would help market the products better to a common consumer. And it would allow the company to share capabilities across geographies and sectors.

There's suddenly a clear trend of diversified conglomerates moving towards integration of their businesses. It's not an easy process. It's also reopening the old debate of whether focus is better than diversity. But this time around instead of divesting, the 'One Approach' being tried out by companies is to keep the diversity, yet provide focus through management reorganisation.

In fact, long before UTC or PepsiCo attempted this, tobacco to hotels homegrown conglomerate ITC did it. It folded back its paperboards and hotels business back into the company in the 1990s. It then created a three-tiered management structure to manage focus as well as diversity. At the top sits the board, which looks at the bigger picture, compliance and statutory issues. At the second level, it created a corporate management committee, which would look at opportunities and strategic management and look at synergies. At the third level were the divisional management committees – essentially the CEOs of different businesses who would look at their units in a focussed way.

PepsiCo, for its part, has created global business groups to stay relevant in a hyperconnected economy, setting up a global nutrition group, a global snacks group, and a global beverages group.

In 2011, as Japan's beleaguered Sony Corp stared at an annual $6.4 billion net loss, it knew something needed to change. New CEO Kazuo Hirai came up with a 'One Sony' recovery plan, trying to pull cameras, films, insurance together

"CUSTOMER FOCUS LED TO THE INTEGRATION"

GAURANG PANDYA, *President, UTC Building and Industrial Systems, who has seen the organisation through the integration curve, describes the reasons and benefits to* **CHITRA NARAYANAN**. *Excerpts:*

It's interesting that India was the pilot where UTC first implemented the integration. Any specific reason?

Well, we were doing this in two or three different countries globally, largely emerging type markets where we were looking at the opportunity... But, yes, India was one of the first countries we tried this out. What we found through the process was there was a lot of good feedback from our customers in the area and it helped us to consolidate a bit. In nascent markets, it is easier to drive change faster.

How has the integration helped the business grow?

There are probably three different planes where we see these synergies. One is obviously the base level cost. When I talk about cost, it is not about research or taking people out. It is about infrastructure. The way we operate. In India, we had multiple offices for each of the divisions. For example, in Bangalore we probably had five offices through various acquisitions and each one had anywhere between 10 and 50 people. Now

Emerging Markets Focus

All the companies driving

as we've come together, we've been able to bring them all under one roof and the scale has improved significantly because now when you go to any of our offices in the big cities we have anywhere between 200 and 300, maybe even 400 people under one roof and it gives the organisation a lot more mass to work with in terms of investing in developing talent, people, and growth of individuals. It has helped a lot in terms of employee engagement, development, and talent selection. So, at one level, when I talk about synergies, it is around people, it is around cost.

But you must have let go of a lot of people when the integration happened? Isn't that inevitable?

No, not really. This is because the scale of our operations only increased, so frankly there was room for people in this organisation.

You mentioned that customer focus led to the integration.

Absolutely, one of the factors driving the integration was in terms of what the customers' needs and demands are going to be in the next decade. Prior to 2010, we were very focused on product sales as such and segment wise product sales. If you look at the Indian market, for example, penetration rates of products are still very low. We are going to continue to grow that over time. Today, what we are seeing is that the customers are coming back and asking us, okay, besides the product that you are selling me, which by the way player XYZ is also doing, what is the other value-add that you bring to the table? A lot of us who have been in the corporation had asked this question for a while. But as we brought the fire, security, and Carrier businesses together as a first step, we saw a lot of opportunity and synergies in selling different products together. On technology, on basic levels like cost and infrastructure as well as from a customer demand standpoint of what other solution could we provide to them.

What were the other aspects of the integration?

The other aspect was frankly looking at technology in integration. When I talk about technology integration, it's a lot of stuff that we started developing, maybe two to three years back, and its probably getting to a point where we will be able to commercialise a lot of it one or two years down the line.

To give you an example, on the Carrier side, we have a specialist in energy who looked at what can be done within a building. But when a person was looking at energy savings he was only looking at it through the HVAC (heating, ventillation and air-conditioning) systems. Now the person can actually focus on energy across the building space, including elevator systems, or fire and security systems. We can look at integrating these technologies to be able to manage the entire building's energy flow better. One of the areas where it has already helped is being able to bring in data and information. So when you get into a building where we have the air-conditioning systems, and where we have the cameras and detectors and elevator systems and access cards – all under the UTC gamut of products and solutions – you can pool the data together. So when you start talking about big data or integration, the more information you have, you're able to use that in a smarter way through the process and you're able to actually run the whole building in a better way. You can read the load profiles inside the buildings through access cards. You know, if you suddenly have 50 people in a room, what kind of an air-conditioning system we need to operate. So, it is both a comfort and energy-related thing that you can manage by bringing in data from different sources. ◆

integration have their eyes on emerging markets. UTC, for instance, started the drive first in India and other emerging markets. As Pandya explains: "In India and China, we are building our companies and the customer is more attuned to getting a solution from a single source."

Similarly, when PepsiCo outlined its 'Power of One' strategy, it pointed out that in emerging markets, the snacks business would benefit massively from the scale of its beverage business, and could grow on the back of it.

Even the world's most respected diversified conglomerate General Electric (GE), interestingly, has a separate strategy for India, with all the diverse businesses reporting to one common chief. John L. Flannery, President and CEO of GE Healthcare, says, "I would say we have not had slogans such as 'Power of One', but we have had the mindset. How can we leverage ourselves in the R&D space, how we can go to governments and pitch together? Outside of the US, this is more important. The structure of India is different and this is why here all businesses report to one common person. You get a lot of benefits – scale, coordination, broader canvas to attract talent."

It's early days yet of the 'One' approach. Whether it can help Sony lift itself out of the doldrums, provide the scale and growth that PepsiCo and UTC are looking for all hinges on execution of the strategy. ◆

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Harvard Business Review

Where Boards Fall Short

New data shows that most directors don't understand the company's strategy.

By DOMINIC BARTON and MARK WISEMAN

Boards aren't working. It's been more than a decade since the first wave of post-Enron regulatory reforms, and despite a host of guidelines from independent watchdogs such as the International Corporate Governance Network, most boards aren't delivering on their core mission: providing strong oversight and strategic support for management's efforts to create long-term value. This isn't just our opinion. Directors also believe boards are falling short, our research suggests.

A mere 34 per cent of the 772 directors surveyed by McKinsey in 2013 agreed that the boards on which they served fully comprehended their companies' strategies. Only 22 per cent said their boards were completely aware of how their firms created value, and just 16 per cent claimed that their boards had a strong

ILLUSTRATIONS BY RAJ VERMA

understanding of the dynamics of their firms' industries.

More recently, in March 2014, McKinsey and the Canada Pension Plan Investment Board (CPPIB) asked 604 C-suite executives and directors around the world which source of pressure was most responsible for their organisations' overemphasis on short-term financial results and underemphasis on long-term value creation. The most frequent response, cited by 47 per cent of those surveyed, was the company's board. An even higher percentage (74 per cent) of the 47 respondents who identified themselves as sitting directors on public company boards pointed the finger at themselves.

Those are shocking results. How can companies strengthen boards' knowledge and help directors build, maintain, and refine a long-term mindset? Clearly, the answer is not to impose yet another round of good-governance box checking and hoop jumping. The lack of improvement that approach has produced speaks for itself.

A good first step might be to help everyone firmly grasp what a director's "fiduciary duty" is. Most legal codes stress two core aspects of it: loyalty (placing the company's interests ahead of one's own) and prudence (applying proper care, skill, and diligence to business decisions). Nothing suggests that the role of a loyal and prudent director is to pressure management to maximise short-term shareholder value to the exclusion of any other interest. To the contrary, the logical implication is that he or she should help the company thrive for years into the future.

At times that mission may require pushing management to challenge the status quo, ideally before the market signals that change is desirable. At other times it may require ignoring market pressures and backing a credible corporate strategy that will take years to bear fruit. (For example, many leading US multinationals have taken nearly a decade to turn a profit in China, a market vital to their long-term success.)

If directors can keep their fiduciary duty firmly in mind, big changes in the boardroom should follow. They will spend more time discussing disruptive innovations that could lead to new goods, services, markets, and business models; what it takes to capture value-creation opportunities with a big upside over the long term; and shutting or selling operations that no longer fit. And they will spend less time talking about meeting next quarter's earnings expectations, complying with regulations (although that, of course, must be done), and avoiding lawsuits.

Companies in emerging markets appear to be ahead of their Western rivals in adopting this mindset. A McKinsey study that compared 41 multinationals based in emerging markets with 303 based in developed economies found that from 1999 to 2008, the emerging market firms often had much more of a long-term orientation than the Western firms, paid out far less, on average, in dividends (39 per cent versus 80 per cent), and reinvested in fixed assets at a rate roughly twice as high. If companies in the West followed suit, it could unlock trillions of dollars sitting in corporate cash reserves and help reignite the global economy's persistently subpar growth.

The mental discipline of keeping long-term value creation foremost in mind would help clarify choices and reform board behaviours. To see how, let's look at four familiar areas where change is essential.

Selecting the Right People

From January 2010 to September 2013, the number of interventions by activist shareholders (challenges seeking board representation, share buy-backs, CEO removal, and the like) increased an astonishing 88 per cent, according to research conducted by Activist Insight for the global law firm Linklaters. Claims Stephen Murray, the president and CEO of CCMP Capital, a major private equity firm: "The whole activist industry exists because public boards are often seen as inadequately equipped to meet shareholder interests." Consider one more damning data point: Only 14 per cent of 692 directors and C-suite executives surveyed by McKinsey in September 2014 picked "a reputation for independent thinking" as one of the main criteria that public company boards consider when appointing new directors.

In addition, public company boards – unlike general partners in the private equity world or successful family-owned companies – often do not think enough about attracting the right business expertise. Having a diversity of perspectives and proven experience in building relevant businesses, as well as deep functional knowledge, is critical. But if our surveys are any indication, too many directors are generalists. And as Don Lindsay, the CEO of Teck Resources, a large Canadian mining company, told us: "One of the big problems with generalist directors who don't have a natural interest in the business is that it can take a long time to convince them to make important decisions."

That is indeed a problem. Former IBM CEO Lou Gerstner recently observed in the *McKinsey Quarterly* that the willingness to tackle outmoded orthodoxies decisively is crucial to sustained value creation. "In anything other than a protected industry, longevity is the capacity to change, not

16%

Proportion of directors who say the boards they serve on understand the dynamics of their firms' industries

"The whole activist industry exists because public boards are often seen as inadequately equipped to meet shareholder interests"

to stay with what you've got," he said. Companies that last 100 years are never truly the same company, he noted. "They've changed 25 times or five times or four times over that 100 years."

However, recent McKinsey research has shown that during a 20-year period, the majority of 1,500-plus US companies were content to maintain the status quo and dole out roughly the same amount of capital to business units that they did the previous year. These businesses moved forward in low gear as a result. By contrast, the most aggressive reallocators – companies that shifted more than 56 per cent of their capital across business units over that period – delivered 30 per cent higher total returns to shareholders. Boards that combine deep relevant experience and knowledge with independence can help companies break through inertia and create lasting value.

True, remaking boards in this fashion is standard counsel these days (see the sidebar *Further Reading*). But if you truly get the importance of thinking and acting long-term, you'll do whatever it takes to attract these people.

Klaus Kleinfeld, the CEO of Alcoa, told us that he deliberately seeks directors who have substantial real-life experience, have worked through difficult times, and also have a strong feel for the kind of long-cycle investment-and-return rhythms that apply to his industry. Kleinfeld also believes mandatory retirement rules need to be applied intelligently to achieve the optimal balance between refreshing the board and retaining valuable experience.

To ensure that it can see around corners, Mars, the privately held food-and-drink powerhouse, has created a five-member advisory group of external experts to complement its three family board members. Each adviser is an expert on a specific driver of company value, from demographic health concerns to food safety regulations, and regularly addresses how trends in these areas may affect the firm's strategy and priorities with the board and senior executives. For executives serious about creating long-term value, injecting more of these kinds of informed perspectives into the conversation at public company boards is not optional; it's imperative.

Spending Quality Time on Strategy

"The first question I would ask boards is whether they are spending enough time and effort assessing the organisation's long-term strategy," Sir David Walker, the chairman of the board at Barclays and a noted authority on corporate governance in the United Kingdom, told us. "If they are honest, the answer will almost always be no."

Most governance experts would agree that public company directors need to put in more days on the job and devote more time to understanding and shaping strategy. Some recommendations get quite specific. Robert C. Pozen, a senior lecturer at Harvard Business School and the former chairman of MFS Investment Management, says that directors of large, complex firms should spend at least two days a month, or 24 days a year, on board responsibilities, in addition to attending regular board meetings. Others suggest that the appropriate number is as many as 54 days a year, the standard for directors of companies owned by private equity firms, according to a McKinsey study in the United Kingdom. The notion of regular group outings for directors – holding board meetings in, say, retail stores or new R&D facilities, or asking members to tag along on sales calls – is also now in vogue.

While we recommend that directors dedicate at least 35 days a year to the job, in our view the precise number of days a board meets or the mix of field trips isn't the main issue. If the aim is fostering the proper long-term view, what matters most is the quality and depth of the strategic conversations that take place.

Consider Interbrew (now part of Anheuser-Busch InBev). When the Belgium-based company decided to explore the China market in the early 1990s, it invited the entire board to join the executive team on a weeklong trip there. Chairman Paul de Keersmaeker made it very clear

We're not fans of the practice of creating focused strategy committees on the board that are similar to the committees on audit or risk

in the opening meeting that the intent was to have directors learn as much as possible about the country and the market. The reason: At some point in the next few years, Interbrew was likely to make an acquisition in China, and when that happened, there wouldn't be much time for debate. The directors needed to develop views on the competitive landscape and operating environment before then so that when the time came, Interbrew could move quickly to acquire its target.

Such serious, unstructured exploration of a long-term opportunity is one way to avoid a trap that many buttoned-down board off-sites fall into, according to Pozen: "If trips go as planned, the directors hear and see what management wants them to hear and see." (See "The Case for Professional Boards," *HBR*, December 2010.) In Interbrew's case, a more open approach paid off: In 1997, it successfully entered China with the acquisition of two local breweries. Just six years later, it had become the third-largest brewer in the country, with a nine per cent market share.

As we argued in our *HBR* piece "Focusing Capital on the Long Term" (January-February 2014), boards also need to do more to develop and communicate nonfinancial metrics that will help guide strategy, especially when income statements don't capture the emerging story. The board of Tullow Oil, a multinational oil- and gas-exploration company headquartered in the United Kingdom, does this well. To measure the company's performance, it uses a balanced scorecard of financial and nonfinancial objectives – which include progress in carrying out key development activities; implementing capital spending plans; achieving environmental, health, and safety goals; and maintaining a healthy, well-funded balance sheet.

But we're not fans of the practice of creating focused strategy committees on the board that are similar to the committees on audit or risk. We agree with Walker, who told us: "Strategy is the fundamental challenge of the organisation, and it should engage the entire board." That collective effort is critical to ensuring the right long-term debates and decisions.

Engaging with Long-term Investors

While boards may be guilty of pushing executives to maximise short-term results, we have no doubt where that pressure really originates: the financial markets. That's why in "Focusing Capital on the Long Term," we insisted that it was essential to persuade institutional investors, whose ownership position makes them the cornerstone of our capitalist system, to be a counterforce.

Boards can and should be far more active in facilitating a dialogue with major long-term shareholders. Certainly, many investors would welcome such engagement. BlackRock, the world's largest asset manager (with more than $4.5 trillion in holdings), already strives for what CEO Larry Fink calls "robust, ongoing communication" with both the management and the board at many companies it holds stakes in. "That doesn't mean that we want to tell companies what to do," Fink told us. "We do, however, want to make sure there is a high-quality board and management team in place, and that we have ready access" in order to serve both the long-term interests of the company and "the long-term interests of our clients."

Happily, this is an idea whose time appears to be coming. Organisations like Shareholder-Director Exchange, a group that includes BlackRock and State Street, have been working to ensure that public companies disclose how their directors interact with shareholders and have been compiling best practices for, among other things, preparing board members for such conversations. That trend underscores long-term investors' growing interest in learning from and exchanging ideas with smart, engaged directors. Currently, however, too much of this dialogue focuses on investor pressures to have a "say on pay" and similar single-minded governance issues. The more powerful discussions occur when companies strive to communicate their strategies for longer-term growth and their key metrics for it.

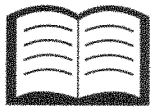
When Unilever famously decided five years ago to end traditional quarterly earnings guidance, it found that having a board member who understood the strategy and could explain it to key investors was invaluable. Bank of Montreal, one of the largest banks in Canada, encourages shareholders to directly contact its independent directors, in particular about such topics as succession planning,

22%

Proportion of directors who say their boards know how their firms create value

corporate governance practices, and disclosure. And the board of Kinross Gold, one of the world's largest gold-mining companies, holds regular one-on-one and group meetings with representatives of its institutional shareholders, who are encouraged to provide feedback. The company has adopted a policy that explicitly states what topics are suitable for directors to discuss (board structure and composition, CEO performance, material strategic decisions, overall corporate performance), and the independent chairman serves as the point of contact between shareholders and the board. (To allow this kind of exchange, institutional investors with a long-term focus should be more willing to lock up their shares – by agreeing not to buy or sell them in the public markets for a period of at least two to three years. This would give them the ability to adopt insider status, excusing them from certain disclosure restrictions that apply to other public investors.)

We believe more companies should and will adopt this approach. Fifty per cent of the sitting directors who responded to our September 2014 survey agreed that regularly communicating the company's long-term strategy and performance to key long-term shareholders would be one of the most effective ways to alleviate the pressure to maximise short-term returns and stock prices. But if these conversations are to give directors the context and confidence to carry out their fiduciary duty, they must be dialogues, not one-way communications.



Further Reading

For more on board reform, check out these articles from the archives on HBR.org:

"Focusing Capital on the Long Term"
Dominic Barton and Mark Wiseman

"How to Outsmart Activist Investors"
Bill George and Jay W. Lorsch

"The Boardroom's Quiet Revolution"
Richard D. Parsons and Marc A. Feigen

"What CEOs Really Think of Their Boards"
Jeffrey Sonnenfeld, Melanie Kusin, and Elise Walton

"CEOs and Boards Need a Pact on How the Firm Will Be Run"
Raymond V. Gilmartin

"Capitalism for the Long Term"
Dominic Barton

"The Case for Professional Boards"
Robert C. Pozen

"Leading from the Boardroom"
Jay W. Lorsch and Robert C. Clark

"What Makes Great Boards Great"
Jeffrey A. Sonnenfeld

Paying Directors More

Good capitalists believe in incentives. If we are going to ask directors to engage more deeply and more publicly, to spend a lot more time exploring and communicating long-term strategy, and to take on any attendant reputational risk, then we should give them a substantial raise. There is a growing consensus that directors should sit on fewer boards and get paid more – substantially more than the current average annual compensation of $249,000. We fully agree, but the even more important issue is how that pay is structured. A number of companies have already shifted the mix towards longer-term rewards.

A few years ago, Johnson & Johnson established minimum ownership guidelines for non-executive directors to better align their interests with shareholders'. J&J requires each director to retain the company shares issued upon election to the board and to own shares equal to five times his or her annual cash retainer. Coca-Cola grants non-option stock awards that become available only after a director has left the board. General Electric follows a similar scheme.

We'd go one step further: To really get directors thinking and behaving like owners, ask them to put a greater portion of their net worth on the table. This could be achieved by giving them a combination of incentive shares, a portion of which vests only some years *after* directors step aside, and requiring incoming directors to purchase equity with their own money. We'd favour encouraging companies to implement this requirement on their own rather than imposing it on them as a rule – especially since the precise share of net worth would need to vary by company size and industry. That said, the overarching goal should be to insist on a "material" investment that more strongly ties a director's financial incentives to the company's long-term performance. In some cases this could mean putting as much as 10 per cent of a director's net worth at risk.

WHILE THE THRUST of each of these broad changes is relatively simple to articulate, none is easy to make. All of them must fit the company and industry context. Introducing them – and making them stick – will require deft handling by board chairs or lead directors, working alongside CEOs. But in total they could bring about a deep shift in the culture, behaviour, and structure of public company boards. Over time nothing else will do more to ensure that these core institutions of our capitalist system deliver the kind of sustained value creation that long-term shareholders expect and that our society deserves. ◆

Dominic Barton *is the global managing director of McKinsey & Company.* **Mark Wiseman** *is the president and CEO of the Canada Pension Plan Investment Board.* *This article was published in* Harvard Business Review, *January-February 2015.* *Copyright ©2014 Harvard Business School Publishing Corporation. All rights reserved.*

Sometimes, all it takes is a small push to bring about a sweeping change.

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Summit & Awards 2015

The Hon'ble Prime Minister's visionary idea of Swachh Bharat was the spark that triggered the India Today Group initiative of Safaigiri Summit & Awards – a platform that will recognise and felicitate the pioneering efforts of those who are leading the change in cleanliness.

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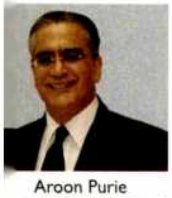
- Cleanest Ghat
- Cleanest Hill Station
- Cleanest Market Place
- Cleanest Monument
- Cleanest Park
- Cleanest Religious Town
- Community Mobiliser
- Corporate Trailblazer
- Garbage Guru
- Tech Icon
- Toilet Titan
- Water Warrior

THE JURY



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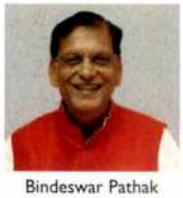

Bindeswar Pathak
Founder, Sulabh International

Chetan Bhagat
Author

Vidya Balan
Actor

Rajeev Chandrasekhar
Member of Parliament

Vinayak Chatterjee
Chairman, Feedback Infrastructure Services Pvt. Ltd

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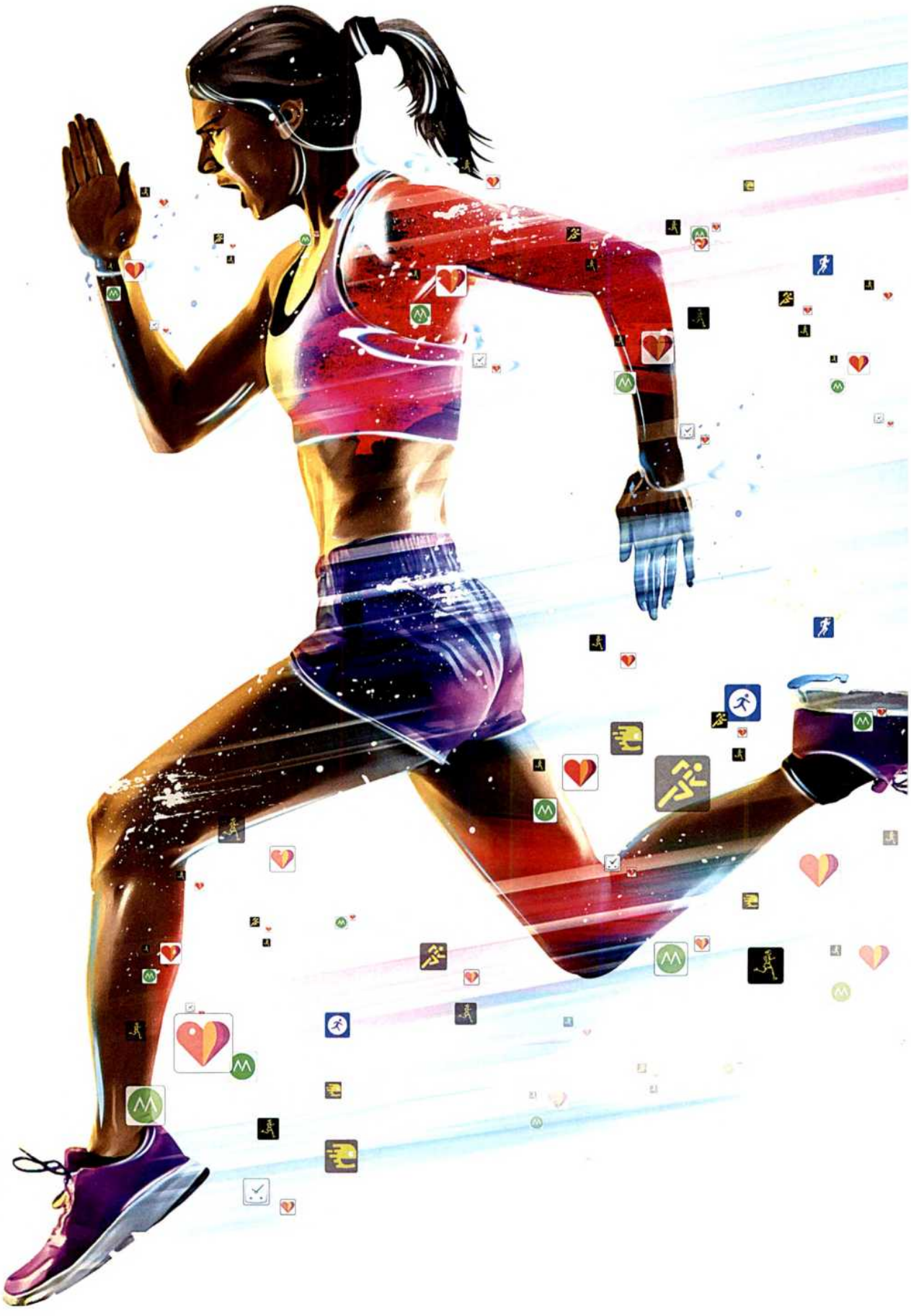


RAJ VERMA

APPS TO STAY FIT AND FAB

Forget the gym, here are some apps - free as well as paid - to help you get into shape. By NIDHI SINGAL

You want to stay healthy and get into a fitness regime. You even enrol for sessions with a personal trainer at the nearby gym, but can't motivate yourself enough to go there regularly. Well, there is another way out now to achieve your fitness goals. Our smartphones, which are capable of doing almost everything, can act as our workout partners. How? In every app store, there is a 'health and fitness' category that has many free as well as paid apps to help you get up from your couch. The 'do-it-yourself' apps, with some basic workout sessions, will encourage you to exercise anywhere, anytime and stay fit. We take a look at five of the most popular and accurate apps:

C25K by RunDouble:

Free/ iOS, Android

If you are unsure about going out for a run yet want to start, C25K by RunDouble can be a perfect app to motivate you. When installed, the app asks you to key in your weight before starting the run. Based on your weight, it shows you the workout plan for nine weeks. You can choose the session and there is a voice tutorial that guides you through the run. It starts with a five minute warm up followed by eight repetitions of 60-second running and 90-second brisk walking. There is also a five minute cool-down walk. The regime remains the same for three days in the first week and is then changed to five minutes warm-up walk, six repetitions of 90 seconds running, two minutes of brisk walking and gentle five minute cool down walk. Week by week, it changes for you to achieve more activity. You can also create a custom run by selecting time and distance. There is also an option to choose a plan, which includes fun run, couch to 5K, 10K starter plans, improver and event plans.

Moves:

Free/ iOS, Android

Fitness bands that track your footsteps and the amount of calories you have burnt are a fad these days. But if you are unsure about wearing one, Moves is the perfect app for you. Once installed, the app is always on and continues to track the number of steps you have taken. It also calculates the distance you have travelled while walking, cycling or running. The app tracks your activity, places and routes automatically. It also automatically detects the difference between running, walking, cycling and transportation movement. It asks for access to your location, which means you will have to turn on the location services, which drains the battery. The user interface is pretty neat and easy to master. Other than circles displaying the data, you can also view the activity in the form of a timeline and an activity map at the end of the day. The app also points out whether you were active or sedentary during the day.

SleepBot:

Free/ iOS, Android

A neat sleep tracker app, it also offers a smart alarm to wake you up. When you go to sleep, you can select track motion, smart alarm and record sound. You should keep your phone close to your body so that it can record sound and even track the body movement. The app uses an accelerometer to track movements throughout the night and make sure the app is launched on the screen. It also records snoring, sleep talking or any other noise/ sound. This information can be accessed by clicking on the spikes in the noise graph within the app. For smart alarm, just like some fitness bands, even SleepBot detects the lightest sleep phase based on the movements and sounds, and then nudges you to wake at the optimal time. Within the app, there is a tutorial that, besides guiding you on how to use it, also shares information on sleep, how to improve sleep and what things will help you in staying awake. This is a no-nonsense app focused only on your sleep patterns.

FirstRun:

Free/ Android

Just like the C25K Fitness Trainer, this app also asks you to select a programme to start with. It has two training sessions – 5K and 10K. The 5K session will train you to run 30 minutes non-stop in nine weeks. It includes 27 sessions that one has to practice thrice a week for nine weeks. The 10K session will train you for 65 minutes of non-stop run spanning over 12 weeks (four times a week) with 48 sessions. Once you select the session, you can start running. For the first session, the running time is 28:30 minutes, including 20:30 minutes of walking and eight minutes of running. The app also shows the distance you have travelled and you can even pause the session. There is also a treadmill mode that you can activate. You need not go outdoors to use this app, which has a neat interface.

Google Fit:

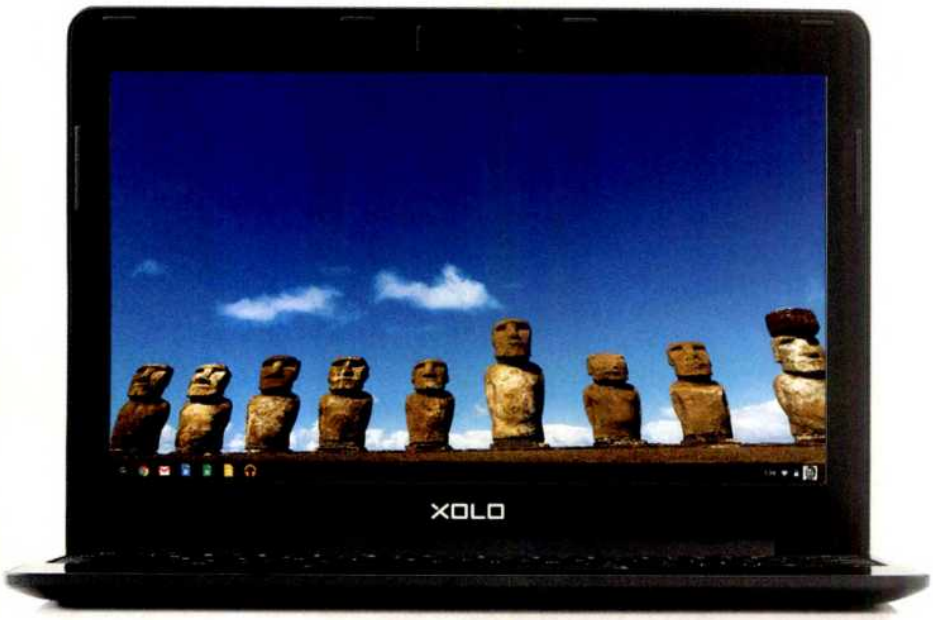
Free/ Android

Capable of tracking your walk, run or even cycling, the Google Fit app works across your phone, computer or even an Android Wear smart device. By default, the app has put up an hour of workout as a goal. This, however, can be changed through the settings. For instance, to start with, I changed my workout goal time to 30 minutes. If you wish, you can also key in your weight and height. It tracks your daily activity, progress towards the goal and weight. The app automatically tracks the activity, compiles it at the end of the day and even measures it against the set goal. And if by any chance you are using an Android Wear device, it will track the data and sync it with the app.

In the beginning, one is all pumped up about fitness, but the motivation level tends to go away soon after. Hopefully, this won't be the case once you start using these apps. ◆

Just Average

ALTHOUGH IT IS AFFORDABLE, THE XOLO CHROMEBOOK LEAVES A LOT TO BE DESIRED. **By NIDHI SINGAL**



BAG IT OR JUNK IT:

Better to buy a Windows convertible or an Android tablet with Bluetooth keyboard, instead

PRICE: ₹12,999

RATING: 3/5

PLUS: Display, size

MINUS: Cloud storage, Internet connectivity

The Xolo Chromebook reminded me of the Windows netbook, which became popular as an affordable alternative to the laptop. This one is made of black matte plastic with the Xolo and Chrome branding on the top. The edges are curved and its light weight makes it comfortable to carry around, even in a handbag. It has a 11.6-inch TFT screen (1366x768 pixel resolution) with a thick bezel around it. The display is sharp but doesn't offer wide viewing angles. The keyboard is surrounded by a glossy panel, whose design spoils the overall look. The regular keys on the Windows machine – function and Windows keys – are not a part of the keyboard. There are two standard USB 2.0 ports and an HDMI port.

There is a Search (also called the Launcher) icon at the bottom left. This is followed by Browser, Gmail, Google Docs, Google Sheets, Google Slides and Google Play Music. By using the Launcher, you can view the files on the drive or access more apps, including the Chrome Web Store. The apps can be added to the Chrome, which opens in the browser.

Unlike the Windows laptop, this one runs on Google's Chrome operating system. The whole idea of the Chrome OS is to stay connected to the cloud to access Google services and apps. The apps aren't stored in local storage and that is the reason why it comes only with 16 GB of internal storage. You can, however, expand it further by using a 16 GB memory card.

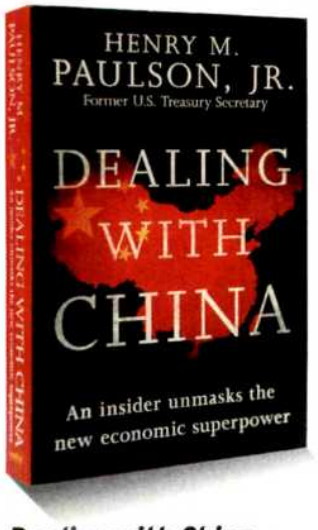
Setting the Chromebook up is easy as it asks you to configure your Google account for which you need to connect it to a Wi-Fi network. You can access services or install apps from the Chrome Web Store. This Chromebook is primarily meant for browsing the web and creating documentation on Google Drive. While you need a Net connection to use most of the machine, you can also create documents in the offline mode.

Watching videos isn't a delight on the Chromebook as the speaker grill is at the bottom, distorting the sound. The battery backup is decent – close to three hours of charge lasted me about six hours. ◆

@nidhisingal

Taking on the Dragon

Deal with China, a country ruled by men not laws, from a position of strength, says the book. By T.C.A RANGACHARI



Dealing with China
By Henry M. Paulson, Jr
PAGES: 430
PRICE: ₹599
Headline Publishing Group, UK

Is there a template for 'dealing' with China? If yes, there are few better qualified to write it than the author who served as the CEO of Goldman Sachs (1996 to 2006) and thereafter as the US Treasury Secretary in the twilight years of the Bush administration. Henry M. Paulson, Jr has been engaged with the Chinese market for over two decades during which he came to know and work with leaders like Jiang Zemin, Xi Jinping, Zhu Rongji, Li Keqiang, among others, and also leading Chinese businessmen.

The Communist Party of China (CCP) controls Chinese businesses, functioning like a revolving door: access to one gives, and reinforces, access to the other. Paulson details the many deals that came Goldman's way, making both sides richer. What comes through is that China perceptively exploited the competition among top US companies to be a part of the modern equivalent of the 19th century "cutting of the Chinese melon". "US companies were falling over themselves to get a seat at the table," writes Paulson. Even high flying CEOs like Paulson himself were not beyond pandering to the Chinese when required, including, in one instance, getting out of the car in a traffic jam and running, yes running, not to be late for a meeting with the leadership. Champions of free-market created wholly-owned business subsidiaries of the CCP. Time and again, allowances were made to win business which would not have been made in other countries.

The Chinese, in contrast, come through as more hard headed, demanding market value for state assets. They leveraged the US companies not just for business but also for skill development through education and training. Thus, Premier Zhu Rongji invited Paulson to help restructure Tsinghua University's School of Economics and Management which he had founded. Not just that, he attended the meeting of the reconstituted Board with Paulson as the Chairman. If only the Delhi School of Economics had gained similarly with Dr Manmohan Singh as PM!

Will a severe economic downturn threaten the CCP's hold on power? Paulson doesn't think so. He reasons that China has a pragmatic, decisive leadership, deep pockets and hardly any domestic constraints. The greater long-term risk is the contradiction between seeking to change the growth model while tightening the screws on political activities; between advancing economic and social reform and modernising governmental functioning while clamping down on political freedoms. The Chinese leadership, he feels, will have to recalibrate the prosperity for stability mantra which provides legitimacy to the CCP's claim to monopoly of political power once people take prosperity for granted.

As for the future, both sides agree that the US-China relationship is the most important one. Paulson notes there is no quick remedy to the gap in understanding: in China that the US wants to contain or thwart China's rise; in the US that China may one day become an enemy. Xi Jinping's approach is to have a "pioneering spirit" to take actions in "mutual interest even if they are unpopular in both countries."

Paulson notes, in a straightforward and candid way, that doing business with China means taking China on faith. It is a country "ruled by men not laws." His view is that the market "would inevitably lead to economic and political freedom". How the rule of men, not laws, would lead to that has, indeed, to be taken on faith.

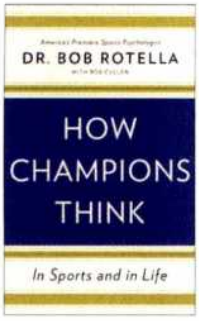
The bottom line from Paulson: Deal with China from a position of strength. ◆

The reviewer is former ambassador to France and Germany

China perceptively exploited the competition among top US companies to be a part of the modern equivalent of the 19th century "cutting of the Chinese melon"

Learning from Sports

A well-crafted journey into the minds of champions. By GIRAJ SHARMA



How Champions Think
By Dr Bob Rotella with Bob Cullen
PAGES: 290
PRICE: ₹699
Simon & Schuster

Sports has always been fascinating. The fascination has oozed out of the sporting arena to the champion. Everyone is intrigued about what goes on in the minds of people who excel at the highest level in sports. The obsession is with the way champions think and behave in various situations.

Champions' brains are hardwired differently and being a champion is not just about physical ability or athleticism, but about the mind. This book is a journey into the minds of champions across sports. As a sports psychologist at the University of Virginia, author Dr Bob Rotella had the opportunity to work with sporting greats before they achieved their champion status. He draws on his numerous discussions with his sporting clients that helped them reach glorious heights. He begins by telling us about how once a skill is learnt, one needs to simply trust that skill. That he has real-time case studies to back his spiel makes the arguments that he puts across compelling.

One need not be a sports buff to get the essence of what he says (in any case most sportstars he refers to are from the NBA and the US, and would warrant a Google search). The book is full of insights that are as relevant to the CEO or a manager or an executive or a student as they were to the sporting greats. Dr Rotella explains the concepts in a manner that's simple and straight. He believes that the one thing champions have in common is the way they think. They have similar attitudes and attributes. They all want to push themselves to see how great they can become. Such commonalities are established in the first chapter. The 18 chapters that follow are well-crafted specific inputs or tools that help one develop self. Dr Rotella is emphatic on the use of the 'desire to be the best' as a tool to empower and how that can drive one through strenuous workouts and the other things that would need to improve. For, sports is a great laboratory to test the ways people respond to situations. And, most significantly, how they respond to failure, and this book will surely equip you on how to go through that fire.

Any book on sports learnings reminds one of *The Ways of the Peaceful Warrior*. While the narrative there was enthralling but layered, here it is straight and direct. Dr Rotella does not mince his words when he claims that dreams are cheap. And that's because lots of people just dream and achieve nothing. Exceptional people also have dreams, but they go well beyond dreaming. They work on to develop a strong will backed up by persistence and they also work on their optimism. ◆

The reviewer is the founder of BehindTheMoon, a brand consultancy, and facilitates Reverse Flick, *a motivational workshop for corporates featuring sports champions*

Work Rules!

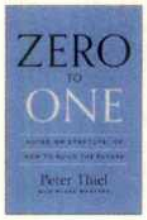
THE FORTNIGHTLY PICK

By Laszlo Bock
Hachette Book Publishing
Price: ₹599
In 12 vivid chapters, it lays out a series of surprising lessons from a range of industries - from household names to little-known innovators.

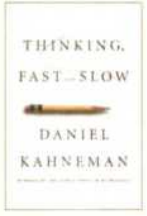
BUSINESS BESTSELLERS*

Dream with Your Eyes Open
By Ronnie Screwvala
Rupa Publications
Price: ₹500

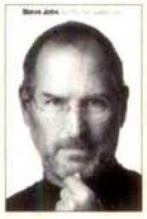
Elon Musk: Inventing the Future
By Ashlee Vance
Virgin Books
Price: ₹699



Zero to One
By Peter Thiel
Random House
Price: ₹499



Thinking, Fast and Slow
By Daniel Kahneman
Penguin
Price: ₹499



Steve Jobs
By Walter Isaacson
Little, Brown Book Group
Price: ₹550

*Top books by sales for June 7-20, 2015; Includes only books released after April 1, 2014; Information provided by amazon.in

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2COMS Consulting Private Limited
GM HR - SM
Location: Kolkata
Job ID: 17054649
Description: Planning human resource requirement linked up with business strategy and departmental accountability, Manpower needs analysis on short, mid and long-term basis etc.

Calsoft Labs India Pvt Limited.
Manager / Sr Manager - Finance
Location: Chennai
Job ID: 17018442
Description: Should have the ability to P track record of developing procedu implementing process improvements communication model for operati activities.

Financial Software & Systems Private Limited
Head - Consulting
Location: Chennai
Job ID: 16868210
Description: 12-15 years with considerable consulting/advisory expertise in the Payments domain coupled with exposure to business development and account management activities.

Celebron Solutions Private Limited
STATE HEAD
Location: Bengaluru / Bangalore, Chenna
Job ID: 17037910
Description: Experience in workin FMCG/ Telecom/ E-Commerce / Pha Industries, Handling a team of TSM Distributor's salesmen.

eClerx Services Private Limited
Senior Manager - Recruitment
Location: Navi Mumbai, Chandigarh
Job ID: 17054431
Description: Establishes recruiting requirements by studying organization plans and objectives; meeting with managers to discuss needs.

ABC Consultants Private Limited
Head- Industrial Relations & HR
Location: Bengaluru / Bangalore
Job ID: 16996429
Description: Managing overall site knowledge of handling industrial rela experience of working on large manufact plants etc.

Quotient Consultancy
HEAD Advisory
Location: Mumbai
Job ID: 17002701
Description: Job will include hiring training, grooming the team and the team leaders in addition to monitoring daily, weekly, monthly revenues.

Ariisto Developers
Head Sales
Location: Mumbai
Job ID: 16344335
Description: Achievement of the targ order booking, sales revenue and unit sa each project and product segment within timelines.

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Hybris Developer / Sr.Developer
Location: Bangalore & Hyderabad
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Description: Hybris Developer / Sr.Developer with J2EE for Bangalore & Hyderabad.

TIBCO Software India Private Limited
JAVA Senior Developer / Architect
Location: Pune
Job ID: 17024041
Description: Overall 8+ years of hands on software development experience using core JAVA, multi-threading, JDBC, JMS technologies.

Akshay Software Technologies
Java Developer
Location: Mumbai
Jobs ID: 17072353
Description: 8 + years of Java/J2EE Enterprise Web Development (minimum).

Jyopa Connexions logo
Software Developer
Location: Bengaluru / Bangalore
Job ID: 17072254
Description: The engineer should have strong domain expertise in mobility and deep expertise in Android. Should have prior experience in developing apps for Android.

Zensar Technologies Limited
SharePoint Specialists
Location: Pune
Job ID: 16852952
Description: Looking out for bright and enthusiastic people who believe in rapid response, flawless execution and delivering results.

Sapient
Senior Associate Technology – Java
Location: Bengaluru / Bangalore
Job ID: 17065105
Description: Providing technical expertise for every phase of the project lifecycle—from concept, development to solution design, implementation, optimization and support.

CareerNet Technologies Private Limited
Wintel Admin
Location: Bengaluru / Bangalore
Job ID: 16916703
Description: Depth knowledge on Windows 2000/2003/2008 Administration& VMware ESX / ESXi.

Ikya Human Capital Solutions Private Limited
IOS Developer
Location: Bengaluru / Bangalore
Job ID: 17074759
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Description: The manager will be respon for hiring top talent, training, coaching retaining them.

Enviro Consulting Services
Area Sales Manager
Location: Pune
Job ID: 17010502
Description: Acquisition of market and develop new dealers, distributors, retailers and increase the base of end customers to achieve business goals on fast track.

Stringz
Sales Executive/Officer
Location: Cochin / Kochi / Ernakulam
Job ID: 17070713
Description: Respond to enquiries thr phone and E-mail, Arrange and assist clients in site visits to them project.

NetApp
Sales Representative
Location: Mumbai
Job ID: 17011107
Description: Work directly with customers to capture sales opportunities and to work effectively across functions with other NetApp employees.

Aswani Properties
Sales & Marketing Executive
Location: Bengaluru / Bangalore
Job ID: 17070386
Description: Strong Communication with strong business related knowledge.

PMR Management and Consulting
Business Developer
Location: Bengaluru / Bangalore
Job ID: 16809773
Description: 3+ Yrs of Experience in business development with existing clients.

I Tech Solutions Private Limited
Sales & Marketing
Location: Mumbai, Pune
Job ID: 17067276
Description: Attain adequate informa from random inquiries, generating l through cold calling, developing opportur with new & existing customers within assi territory.

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Location: Chennai
Job ID: 17033213
Description: Minimum of 3-6 years experience in tax department preferably an IT/ITES company.

Vitasta Consulting Private Limited
Manager - Corporate Tax
Location: Mumbai, Pune
Job ID: 17071262
Description: Looking for CA candidate with 5 to 8 years experience.

JK TECHNOSOFT
Finance and Accounts Analyst
Location: Gurgaon, Noida
Job ID: 17071254
Description: Processing invoices and urgent payments and getting resolution for exception invoices, Meet accuracy, TAT and to make sure invoices are paid on time.

dEEVOiR Consulting Services Private Limited
Taxation Manager/Executive
Location: Mumbai
Job ID: 16723178
Description: Should be Multi-tasking and have should possess sound knowledge in Accounting and Finance.

Invent HR India Services Private Limited
Accountant
Location: Mumbai
Job ID: 17070748
Description: Should know petty cash, TDS, bills receivables, accounts payable, Should have basic Knowledge of computer.

Golden Opportunities Private Limited
Cost Controller Accounts Payables
Location: Pune
Job ID: 16857646
Description: Looking for professionals with 3+ years of experience in accounts payables.

Layam Management Solutions Private Limited
Assistant Manager
Location: Chennai
Job ID: 17072091
Description: Good exposure in Central excise, service tax and customs matter in Manufacturing companies.

Career Avenues India Private Limited
Manager Accounts
Location: Mumbai
Job ID: 17067335
Description: Obtain and maintain a thorough understanding of the financial reporting and general ledger structure.

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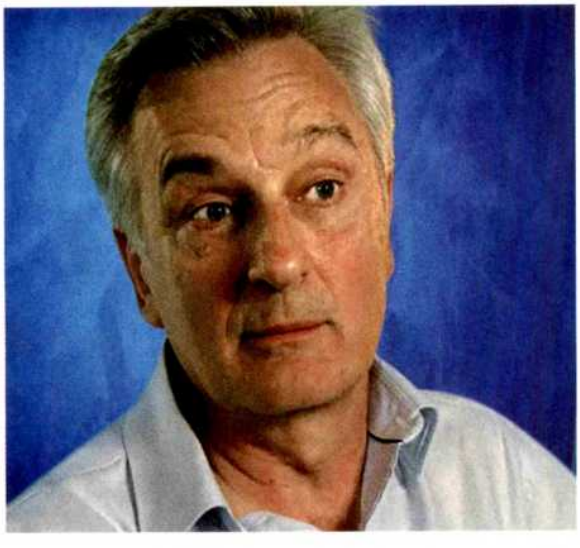
Stephen Elop
EVP, Microsoft
Devices Group

Out. In. Out

When Microsoft reshuffled its executive ranks recently, the departure of one key person did not come as a surprise. **STEPHEN ELOP**, who had quit Microsoft to become the CEO of Nokia, had rejoined the company after selling the Finnish firm to become Executive Vice President of the devices business. He was seen as being in the running to succeed Steve Ballmer as the CEO of Microsoft, but when Satya Nadella pipped him to the post, it was clear that Elop's days at the Redmond-headquartered company were numbered. The devices business of Microsoft has been struggling and Nadella might have wanted a fresh start. Nadella wrote in his mail announcing Elop's departure " ... look forward to seeing where his next destination would be." We would be keenly watching too. Stay tuned.

VENKATESHA BABU



Mike Watts
Co-founder Magna Energy

Renewed Energy

MIKE WATTS is back. The oil explorer, who became a darling of geologists in India after he hit a jackpot in the deserts of Rajasthan for Cairn Energy, is now rolling out his own upstream oil & gas company Magna Energy. Watts has teamed up with his former colleague Jann Brown to form this new entity, loaded with a $500 million commitment from Carlyle International Energy Partners. They will look at investment opportunities in India and South Asia. The timing could not be better as India gets ready for the 10th round of auction of exploration blocks. Will Watts strike black gold again?

ANILESH S. MAHAJAN

Apurva Purohit
CEO, Radio City

Well Tuned

APURVA PUROHIT, CEO of Radio City, believes Jagran Group's recent investment in her company will be a win-win for both. For Radio City, it will be the obvious comfort of being part of a large media network as opposed to a single media entity it has been for the last 10 years. And Jagran will get access into the metro markets through the Radio City network. For Jagran, a print, radio and digital presence would be a good combination to have. "To fulfill their entertainment ambition, they (Jagran) needed a large media vehicle as a core," says Purohit.

AJITA SHASHIDHAR

Ashish Bhasin
Chairman & CEO, DAN, South Asia

Ad-libbing

ASHISH BHASIN wants his group to be the second-largest advertising conglomerate in India after WPP within the next two-and-half years. Bhasin, who recently took over the reins of the entire Dentsu-Aegis Network (DAN) network in India, says the coming months would see the group offering its clients a host of new-age communication solutions. "We are the only people who can provide our clients with all the benefits of specialisation without the hassles of silos...." said Bhasin.

AJITA SHASHIDHAR

John Chambers (L)/ Chuck Robbins
Outgoing CEO/ CEO designate, Cisco

Networking with India

The latest MNC to join the 'Make in India' chorus is networking gear company Cisco. Outgoing CEO **JOHN CHAMBERS** and CEO designate **CHUCK ROBBINS**, who were in India recently, spoke eloquently on how the country was transitioning to a more robust manufacturing economy. The duo announced the $47-billion company was taking its "first steps" in manufacturing – early next year, it would host 75 of its suppliers at a conference in India. "We are taking a bet. We are betting on India as a manufacturing powerhouse," said Chambers.

GOUTAM DAS

LEADERSPEAK Sandeep Goyal

Full interview with Sandeep Goyal at businesstoday.in/mogae-goyal

VIVAN MEHRA

Former Dentsu India chairman **Sandeep Goyal,** who now runs mobile ad agency Mogae Digital, tells **Ajita Shashidhar** his firm not just creates mobile ad campaigns but also develops customer relationship management tools. Excerpts:

"Soon mobiles will start talking to TV screens"

What are the challenges and opportunities mobile media has created for you?

The challenges of creativity have multiplied by the arrival of technology. The joy has also multiplied, as technology allows you to do things far more creatively.

How are you using mobile media to reach out to the target audience?

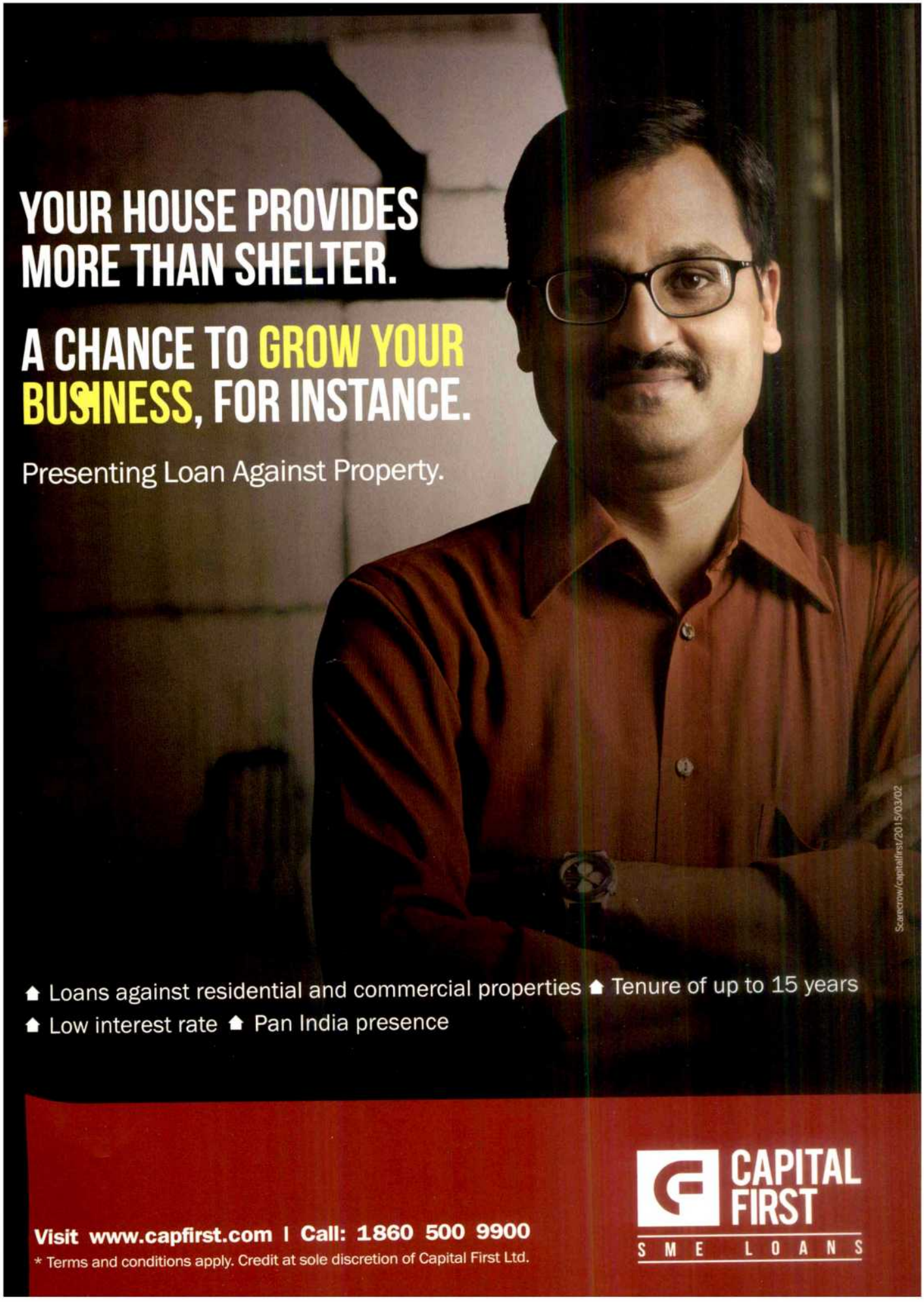
We are working with a dozen clients on developing CRM models, loyalty models, retention models. Traditional advertising agencies have never functioned like this.

What are the challenges?

The screens are different. It took art directors a long time to understand TV. When you watched a movie on a 70 mm screen, you looked for expanse. The moment TV happened, the screen size got reduced. Art directors had to learn the importance of close-up – from shooting expanse to shooting close-up. So, the importance of dialogue. I just can't see your face, you also need to speak to get the show going. It required a lot of relearning of basic creative concepts. With mobile, one has to yet again relearn storytelling. Twitter is already teaching you rewriting.

What is the big change that will happen in the world of brand communication?

Soon mobiles will start talking to TV screens and there will be a metamorphosis. If an ad says there is a 50 per cent discount on a product on Wednesdays, then as a customer, I will ask the brand for a discount coupon. ◆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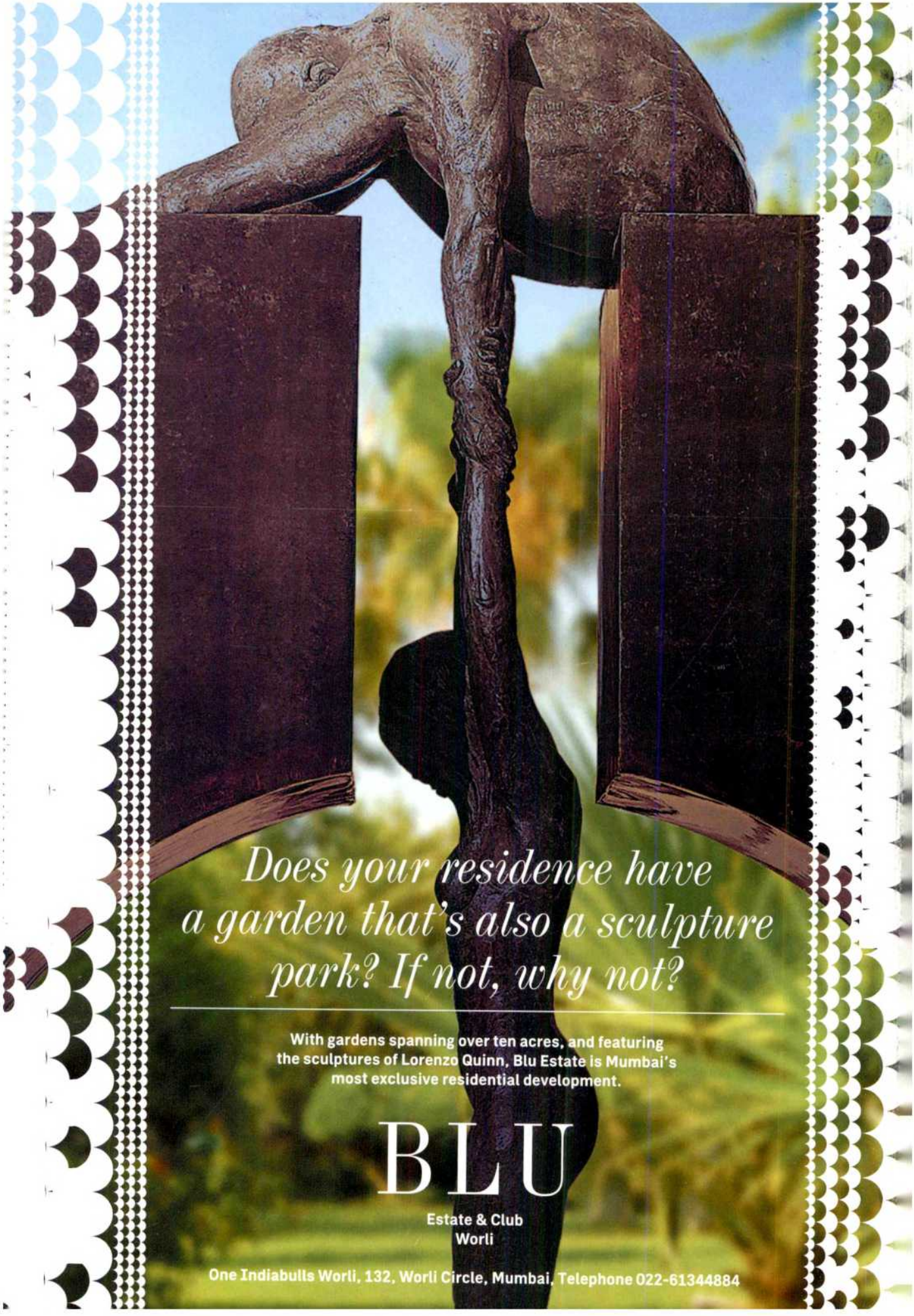
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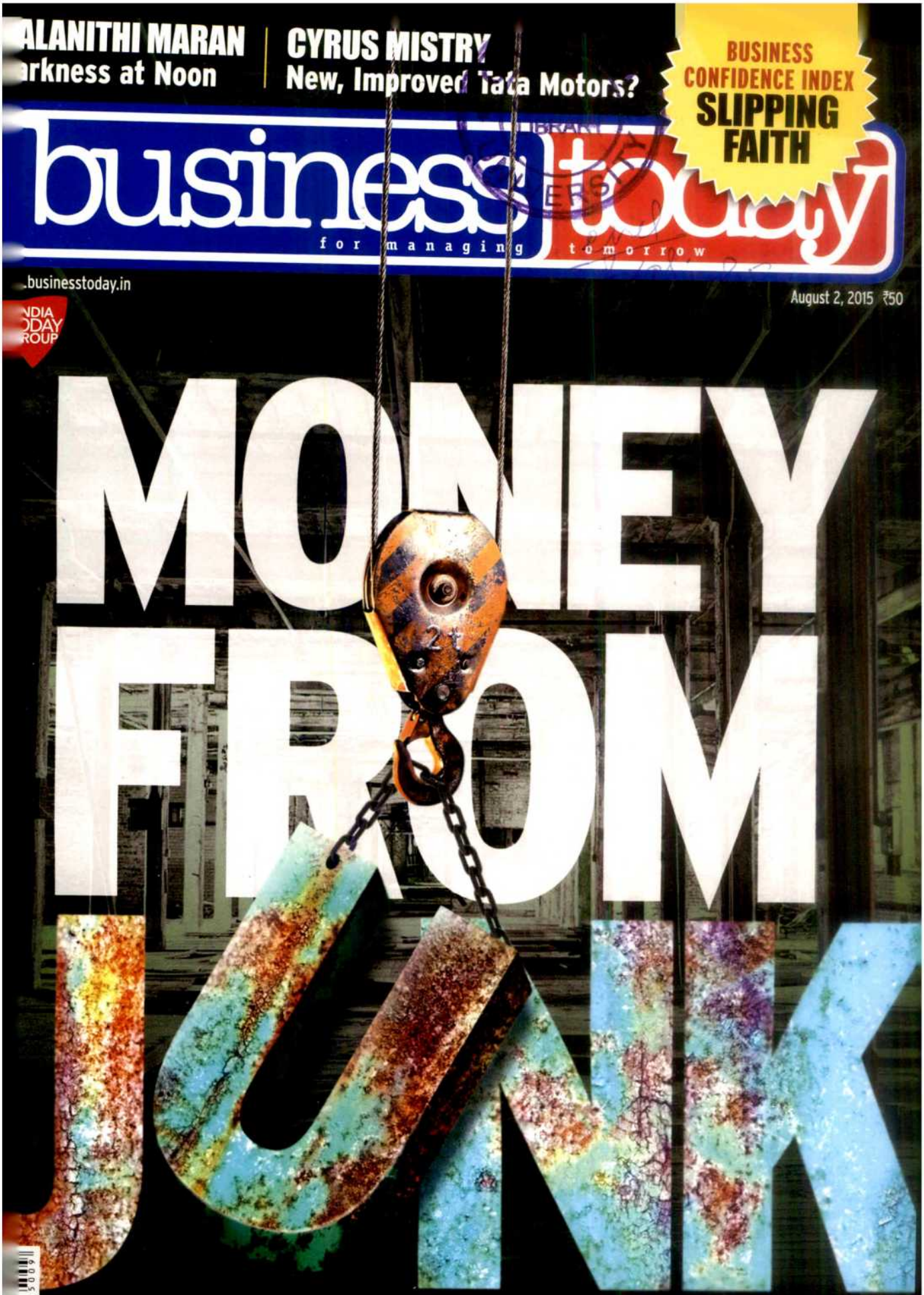
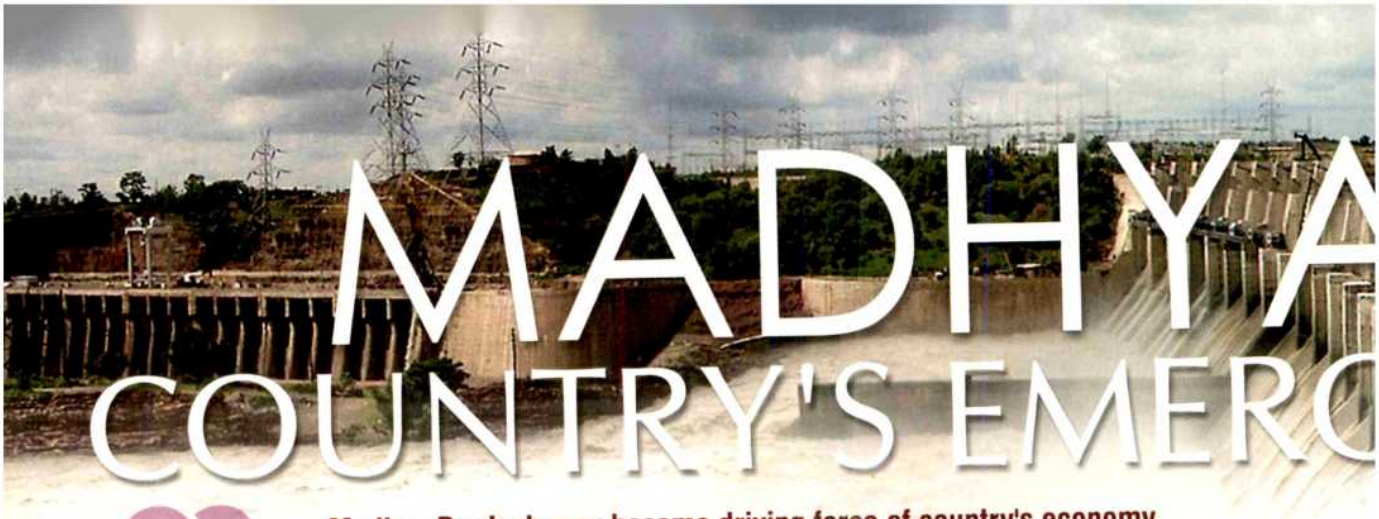
MONEY FROM JUNK



INSIDE THE BUSINESS OF BUYING AND SELLING DISTRESSED ASSETS

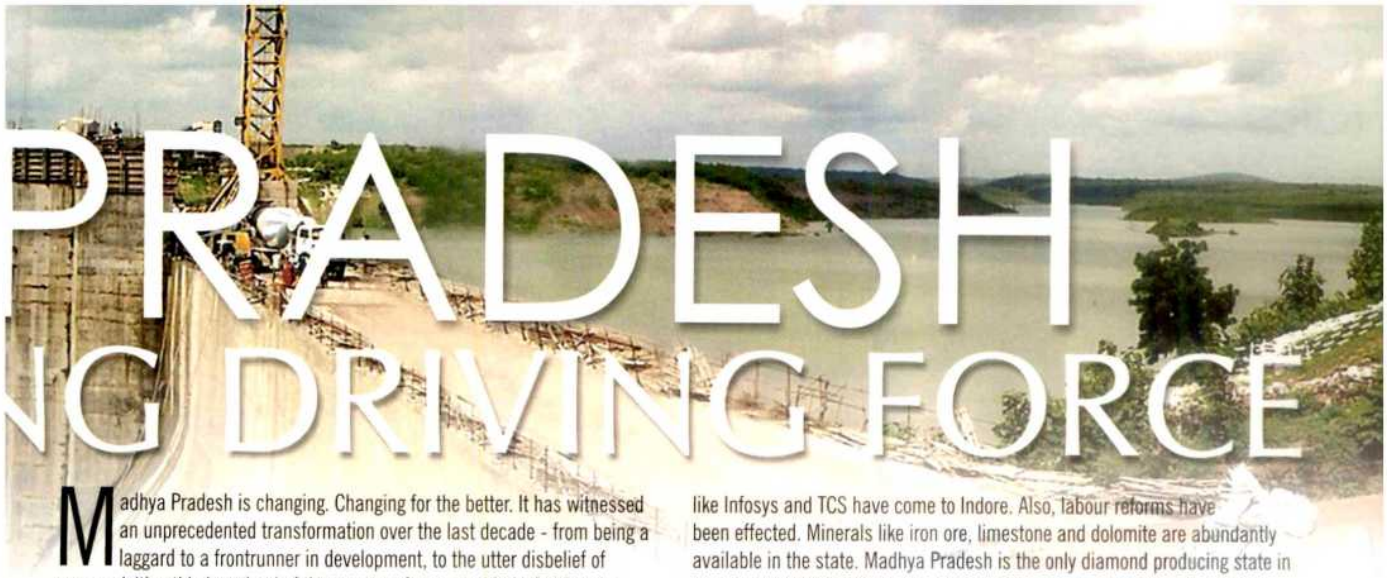


MADHYA
COUNTRY'S EMERG

"Madhya Pradesh may become driving force of country's economy. Chief Minister Shri Shivraj Singh Chouhan is doing good work towards this. Madhya Pradesh has come out of BIMARU category under his leadership. The State has made miraculous achievements in agriculture sector. Area under irrigation has increased in the state. Besides, modern farming techniques and methods have been promoted due to which agricultural growth has surpassed Ganga and Yamuna basins."

- Shri Narendra Modi, Hon'ble Prime Minister of India

Shri Narendra Modi, Hon'ble Prime Minister of India along with Shri Shivraj Singh Chouhan, Hon'ble Chief Minister, Madhya Pradesh



PRADESH
NG DRIVING FORCE

Madhya Pradesh is changing. Changing for the better. It has witnessed an unprecedented transformation over the last decade - from being a laggard to a frontrunner in development, to the utter disbelief of anyone visiting this heartland of the country after a gap of say 9-10 years. Scripting a unique inclusive growth-story during the last decade, Madhya Pradesh has achieved the distinction of recording a double digit growth rate - the highest among major states of the country. The agricultural growth rate is over 20 percent - probably the highest not only in India but the world. Investment is being promoted in food processing sector for value addition of agriculture produce. This year the GSDP growth rate of Madhya Pradesh stood at 10.19 per cent. However, development is not only about growth rates; it also concerns improving the living standard, and bringing about educational development and positive social changes. Madhya Pradesh is giving a very good account in this respect, too.

The state is billed by experts as an emerging economic powerhouse of the country, given the state government's committed efforts to realise its potential. The industrialists and entrepreneurs from all parts of India and the world are now getting drawn to Madhya Pradesh. At the Global Investors Summit (GIS) held at Indore in October last, the major industrial houses and captains of Indian economy reposed their faith in the potential of Madhya Pradesh and the policies and passion of the state government for development. They also showed commitment to become active partners in the growth story of Madhya Pradesh; investment proposals to the tune of Rs 6.90 lakh crore were received at the GIS.

There are direct flights for Mumbai, Delhi, Kolkata, Chennai, Bangalore, Hyderabad and Pune from Madhya Pradesh. The state has 5 inland container depots at Malanpur, Ratlam, Mandideep, Pithampur and Pawarkhera. These connect the state to major ports of the country. As many as 425 trains transit through Madhya Pradesh everyday.

The state government has created land bank of 25,000 hectares for industrial development. This land is totally litigation-free and the process for its allotment is also very simple. Backed by political stability, there is good law and order situation; industrial peace and no lockouts or man-days loss in the state. Special attention is being paid to raise skilled manpower as per new industries' requirements. There is no shortage of power and water. The state government chalked out policies for various industries. It has framed Electronics System Designing and Manufacturing Policy.

The state is now the next destination of IT industries. Major companies like Infosys and TCS have come to Indore. Also, labour reforms have been effected. Minerals like iron ore, limestone and dolomite are abundantly available in the state. Madhya Pradesh is the only diamond producing state in the country. Madhya Pradesh's share is 14 percent in the country's cement production. The state government has made available facilities to bring better technology and investment in the concerned industries.

Madhya Pradesh has immense forest wealth. After Himalaya, Amarkantak is the richest forest in herbs, where about 2200 kinds of herbs are found. Apart from the state's lifeline Narmada, the state has several other rivers including Tapti, Betwa, Chambal, Son and Kshipra.

A CLOSE LOOK AT THE STATE'S SAGA OF SUCCESS IN VARIOUS SECTORS:

■ POWER

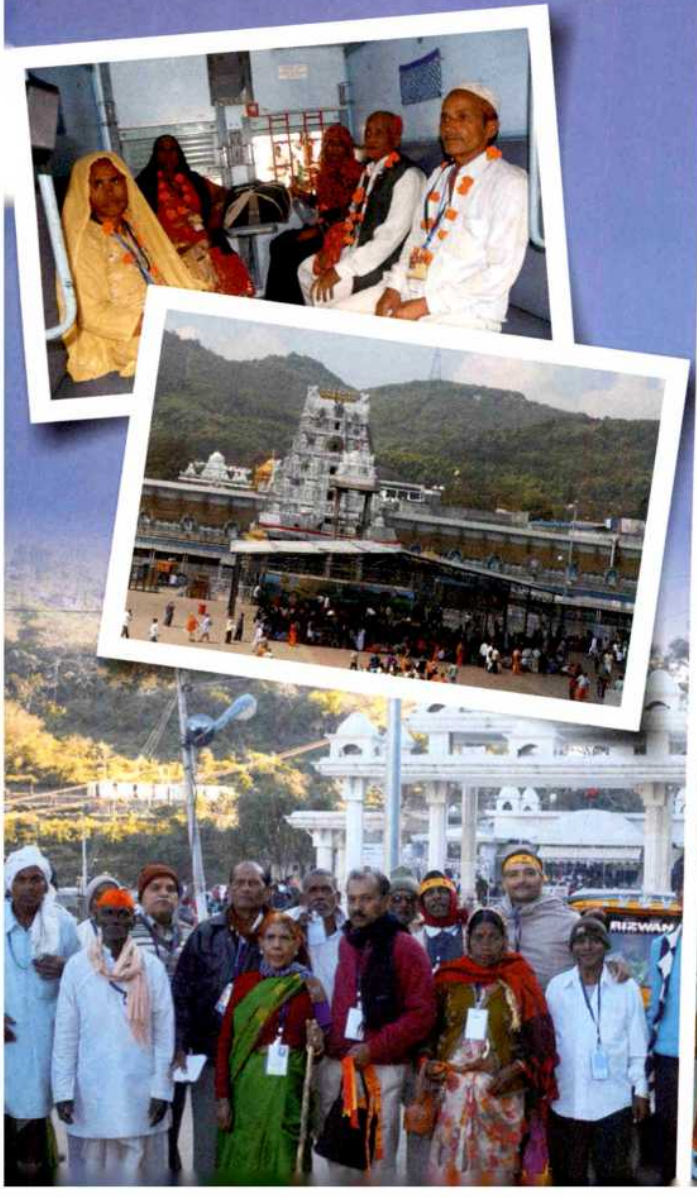
Madhya Pradesh has a surplus situation in the power sector. Industries are being supplied power for 24 hours uninterruptedly. Domestic consumers are being supplied 24X7 power and farmers 10 hours for agriculture. In the year 2004-05, the power availability was 6000 MW which has now gone up to 15,044 MW. A commendable target of maximum 9832 MW of power supply was achieved in 2014-15. This achievement is more significant because the number of power consumers which was 64 lakh 93 thousand in year 2004-05 has increased to 115 lakh 81 thousand. Capacity of 1540 MW has been developed from renewable sources of energy by March 2015 and it will be further raised to 3000 MW by December 2015. The world's biggest Ultra Mega Solar Power Project of 750 MW is to come up at Rewa.

■ ROADS

The state government has provided over Rs 25, 000 crore for roads in last 10 years as a result of which now the state has a very good road network. Over the last 10 years, more than one lakh km roads have been constructed and upgraded. The state highways of 504 km have been converted into four lanes; 12,470 km long 5836 roads have been constructed under the Mukhya Mantri Gram Sadak Yojana in the villages not included under the PMGSY. Projects of Rs. 34,443 crore for road construction have been implemented by Madhya Pradesh Road Development Corporation. Roads spanning 60, 000 kms have been constructed under PMGSY. About 1806 km of state highways are under construction.

TIRTH DARSHAN YOJANA

At the initiative of the Chief Minister, a unique scheme christened Mukhya Mantri Tirth Darshan Yojana has been implemented to provide the senior citizens the facility of visiting a religious place of their choice at government expenses. The pilgrimage centres covered under the scheme include Badrinath, Kedarnath, Jagannath Puri, Dwarika Puri, Haridwar, Amarnath, Vaishno Devi, Shirdi, Tirupati, Ajmer Sharif, Kashi, Gaya, Amritsar, Rameshwaram, Samved Shikhar, Shrvan Belgola, Velangini Church and Sindhu Darshan.



■ SOCIAL SECTOR

The most important feature of Madhya Pradesh's growth saga is that while pursuing economic growth and infrastructure, social concerns have received equal importance.

■ WOMEN'S EMPOWERMENT

- The Chief Minister has announced that women entrepreneurs would not have to pay interest for first seven years on the loan for starting industries.
- New State Policy for Women-2015 enunciated for further empowerment of women by the Chief Minister after direct interaction with women at the Mahila Panchayat at his residence recently.
- Male-female ratio has increased from 919 female per thousand male to 931 female per thousand male, a tribute to the resolute efforts made by state government's policies and programmes championing women's rights.
- Beti Bacho Abhiyan has improved skewed sex-ratio.
- Separate Directorate set up for women's empowerment.
- Twenty lakh girls benefited under the Ladali Laxmi Yojana.
- Shaurya Dals constituted in 20 districts to control incidents of violence, crimes and sexual exploitation of women and girls. These protection groups would be constituted soon in the remaining 31 districts.
- Lado Abhiyan against child marriage has prevented 52,000 child marriages through counselling.
- Mukhya Mantri Mahila Sashaktikaran Yojana initiated for rehabilitation of women victims of violence.
- A total of 12,759 self-help groups of women constituted.
- Over three lakh marriages of girls from poor families solemnized under the Mukhya Mantri Kanyadan and Nikah Yojana.

■ YOUTHS

- The state government has implemented a Youth Policy to channelise energy and power of youths for development of the state and to ensure their all round development.
- Mukhya Mantri Yuva Swarojgar Yojana introduced to help youths start their own businesses and industries. The scheme provides loans up to Rs one crore.
- A Rs. 100 crore Venture Capital Fund created to help establishment of industries based on innovative ideas.
- Yuva Contractor Yojana implemented to help engineer youths to prepare and get government contract.

■ SOCIAL HARMONY

Madhya Pradesh enjoys social and communal harmony. Holi, Diwali, Eid, Christmas, Gurunanak Jayanti, Budh Purnima are observed with equal respect and dignity as per prescribed rituals and customs. The Chief Minister participates in these celebrations with his family and felicitates people for their outstanding achievements.

Modern Madhya Pradesh starts taking shape in tandem with the centre

Building on its creditable achievements in key development sectors over the last one decade, Madhya Pradesh has now firmly moved towards becoming a modern state benefiting from the opportunities created by the future focused initiatives of the Prime Minister Shri Narendra Modi. Chief Minister Shri Shivraj Singh Chouhan is keen on making the most of these opportunities to enable the state to keep pace with the changes at the global level. Having already put the centrally located state on a new growth trajectory by improving the situation on the fronts of power, road, water, agriculture and industry to amazing [redacted]s besides taking path breaking initiatives in the social sector, the Chief Minister is now ensuring fast paced growth in new spheres.

Showing unmatched sincerity and alacrity in impl[redacted]enting the ambitious Pradhan Mantri Jan Dha[redacted]ojana for financial inclusion, Madhya Pradesh has taken lead in the country by achieving its target well ahead the prescribed deadline. Now every family in the state has minimum one bank account. Now work is in progress for direct transfer of benefits of government schemes to the beneficiaries.

Implementing the Swachh Bharat Abhiyan in the right earnest, Madhya Pradesh has worked out separate strategies for urban and rural areas. The target of cons[redacted]ing toilets in all schools of the state will be achieved this year. Following increase in FDI in the defence production, Madhya Pradesh was the first state to formulate Defence Production Industrial Investment Promotion Policy. The Chief Minister has directed to reserve land for the defence production units. Again Madhya Pradesh took the lead in laying down Semiconductor Fab Policy. Electronic manufacturing units are going to start in the IT Parks at Bhopal and Jabalpur. Madhya Pradesh would have the proud privilege to the first state in the country to manufacture micro chips, which are presently imported from other countries.

With a view to contributing significantly to 'Make in India' initiative of the Prime Minister, 'Make in Madhya Pradesh' has been launched in the state. As part of measures to ensure its success, the Shivraj Singh Chouhan government has taken effective measures for improving ease of doing business in the state. Unnecessary permissions are being done away with; single door policy has been implemented for industries; labour laws are being simplified; voluntary compliance scheme has been introduced which provides for only one inspection of factories in five years. Besides amendments in 17 labour laws are proposed. The units have been given the facility of maintaining only one register instead of 61and only 2 annual statements in place of 13.

The state government has carried out a campaign to ensure benefit of the three new social security schemes enunciated by the Prime Minister Shri Modi for weaker sections of society. These include Jeevan Jyoti Bima Yojana, Pradhan Mantri Durghatana Bima Yojana and Atal Pension Yojana. Furthering the efforts to maximize use of ITC for good governance, the state government has launched CM helpline to ensure prompt and speedy redressal of public grievances. In yet another major initiative, broadband connectivity is being provided to all the 23 thousand-odd panchayats through National Optic Fiber Network.

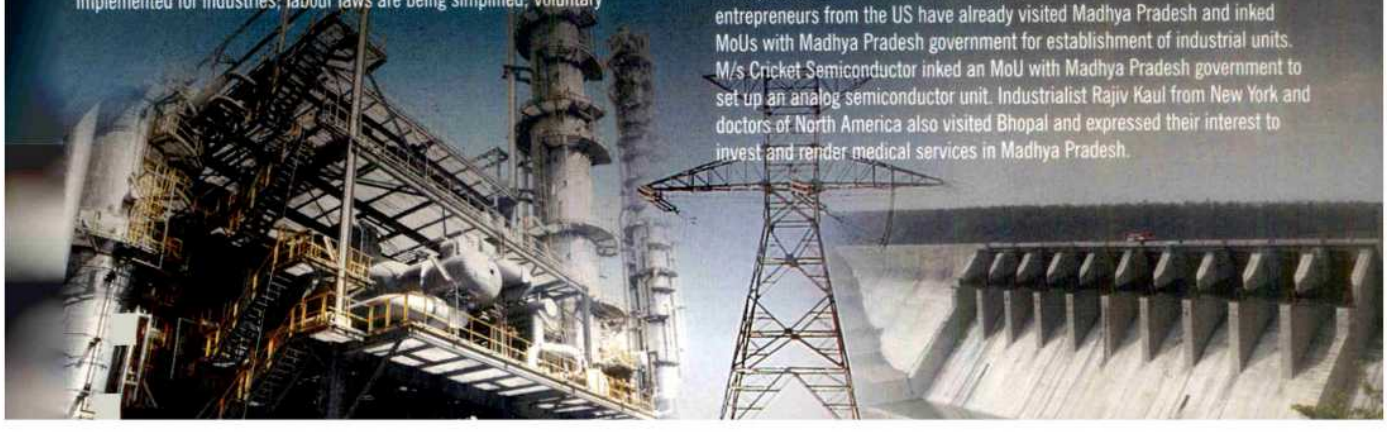
With a view to minimizing the difficulties to the citizens in government offices and to provide hassle-free services several fresh initiatives have been taken. The need of notarizing documents for various works and to get documents attested by a gazetted officer by the students has been abolished. Now self certification suffices. Now there is no need to submit affidavit for works related to social security pension, BPL ration card, registration in employment offices, Mukhya Mantri Kanyadan Yojana, scholarships, power connection, registration as construction worker etc. The system of issuing caste certificate online has been put in place. So far, over 40,000 cast certificates have been issued online.

"The Team Madhya Pradesh under the leadership of Chief Minister Shri Shivraj Singh Chouhan has proved that even a backward state can emerge as the fastest growing state if it has clear policies, intentions and will power to achieve the goal. Let the world know about the development of Madhya Pradesh. Achievements made by Madhya Pradesh in infrastructure, irrigation, agriculture, power and road sectors are very important. Under 'Make in India', the Centre has proposed manufacture of defence equipment in the country and Madhya Pradesh is the first state which formulated a policy for manufacture of such equipment. The Centre announced Digital India and the foundation stones of two electronic manufacturing centres were laid in Madhya Pradesh soon after."

-Prime Minister Shri Narendra Modi at GIS, Indore

At the Global Investors' Summit held at Indore in October last year, the Prime Minister Shri Narendra Modi had suggested states to create a global talent pool to associate the India diaspora from their respective region living in different states by harnessing their talent and resources. The CM visited USA and had interaction with Indian Americans and exhorted them to be partner in Madhya Pradesh's growth story. The Chief Minister also launched a friendsofmp website to facilitate them.

In response to the Chief Minister's appeal, a number of professionals and entrepreneurs from the US have already visited Madhya Pradesh and inked MoUs with Madhya Pradesh government for establishment of industrial units. M/s Cricket Semiconductor inked an MoU with Madhya Pradesh government to set up an analog semiconductor unit. Industrialist Rajiv Kaul from New York and doctors of North America also visited Bhopal and expressed their interest to invest and render medical services in Madhya Pradesh.



Simhastha

Kumbh Mela, Ujjain 2016

CALL TO BE ONE WITH THE DIVINE

The time and duration of fairs and festivals of the Sanatana Dharma are decided by planetary configurations. Simhastha in Ujjain is one of the 4 Kumbh Melas held in Praying (Allahabad), Hardwar, Nasik and Ujjain. The Kumbh Mela at Ujjain is called Simhastha as the Sun is in the Aries and the Jupiter in the Leo. Bathing in the purificatory Kshipra River at Ujjain during the Simhastha, particularly on auspicious dates cleanses the souls of the pilgrims and qualifies them for salvation. According to the Skanda Purana, "The holy bath of Kumbh equals in Punya to thousands of Kartik Snanas, hundreds of Magh Snanas, and crores of Narmada Snanas during Vaishakh month. The fruits of Kumbha Snana are equal to the fruits of thousands of Ashvamedh Yajnas, hundreds of Vajpayee Yajnas and lakhs of journeys around the earth."

The Puranas tell the epic story of churning of the ocean by the demigods and the demons that yielded among other things a jar of ambrosia. A battle ensued between the two sides to capture the jar that continued for twelve days in the skies. In the battle, a few drops fell in the rivers in Haridwar, Prayag, Nasik and Ujjain.

MEMORABLE PIN-UPS

The month long congregation of pilgrims during the mega fair offers magnificent spectacles and memorable pin-ups. Processions of seers and sages from Akharas of various sects in their prescribed costumes to take the holy dip in the Kshipra with their holy Nishans or sartorial banners on specific ceremonial and ritual bath days are most spectacular of the sights. All of them follow the rituals and traditions of their respective sects. The city reverberates with chanting of mantras and hymns singing the glory of Shiva. Many of the seers and sages taking part in the processions come out of their place of penance only to take part in the Kumbh Melas.

Nagas- The Star Attraction

Naga Sadhus, the nude mendicants, smeared in ash, are the main attraction of the procession as well as the mega event. Their seemingly unending row is an ethereal spectacle. The Nagas call themselves Sanyasi army for the protection of the Sanatan Dharma. They consider their nakedness as a symbol of renunciation. They are totally detached from life.

No Mundane Divisions

There is sea of humanity surging like one organic whole, driven by the common desire to be one with the divine. The entire city acquires an otherworldly hue. Every household in the city plays host to the pilgrims serving them with great affection and take care of them to the best of their ability. Pilgrims converge on the ghats of the sacred Kshipra to take the holy dip.

Shri Mahakaleshwar

Shri Mahakaleshwar, the Lord of Cosmic Time, is the presiding deity of Ujjain, located on the Tropic of Cancer, prime meridian of India. Shri Mahakaleshwar temple enshrines one of the 12 Jyotirlingas that occupy exalted position in Sanatan Dharma. The most important thing about the Jyotirlinga here is that it is believed to be swayambhu or born of itself and derives currents of power or Shakti from within. Besides, it is the only south-facing Jyotirlinga and that is why it is called Dakshinamurthy or Dakshinmukhi.

Holy City Ujjain

Ujjain is not merely a physical entity, but also a tremendous spiritual energy field. The moment you step into it with a little meditative mind, you feel spiritually elevated in an ocean of vibration of divine energy that permeates every particle of this one of the seven most sacred cities of India mentioned in the scriptures.

Previously known by various other names like Avanti, Kushasthali, Kanakshringa, Bhaumvati, Padmavati, Pratikalpa, Amaravati, Vishala, Avantika, Ujjaini etc, the city's fascinating beauty attracts the poets, writers and other artists and scholars. Mahakavi Kalidasa has devoted twelve of hundred verses of his classic Meghadootam to Ujjain. Panegyrical accounts of this most hollowed of cities have been given by ancient travellers like Fa hsein, Hiuen Tsiang, Francis Bernier etc.

A classic example of religious and communal tolerance, Ujjain had all along been a prominent religious centre where Jainism and Buddhism also flourished. This has been an important seat of the Siddha and Nath sects.

The city has countless temples like Shri Chintaman Ganesh, Harsiddhi Temple, Shri Kal Bhairava, Bade Ganesh Temple, Mangalnath- Mahadeva, Gadh Kalika, and Gopal Mandir. Ujjain has been a prominent centre of astrological and astronomical studies since ancient times.

Sandipani Ashram

In ancient times Ujjain enjoyed the reputation of being a great seat of learning. Yogeshwar Lord Krishna and his brother Balram had received early education at the Ashram of seer Sandipani in the Ankpat Kshetra of Ujjain. It is believed the numerals 1 to 100 found on a stone here were engraved by Guru Sandipani. The place is regarded as the 73rd of the 84 seats of Vallabhacharya. Here he delivered his discourses throughout the country.

UNIQUE COINCIDENCES

Following unique coincidences happen on the occasion of Simhastha:

- The month of Vaishakh
- The bright fortnight
- The Sun in the Aries
- The Brihaspati in Leo
- The Moon in the Libra
- The Vyatipata Yoga
- The pious Monday
- The holy Kshetra Avantika

This Simhastha a very rare planetary configuration called Siddha Amrit Yog is taking place after 5118 years.

Snan Parva

BATHING OCCASIONS

1.	Ceremonial bathing on beginning of the festiva	April 22, 2016
2.	Parv Snan	May 9, 2016
3.	Parv Snan	May 11, 2016
4.	Parv Snan	May 17, 2016
5.	Parv Snan	May 19, 2016
6.	Shahi Snan	May 21, 2016
7.	Vrishabh Sankranti	May 15, 2016
8.	Mohini-Ekadashi	May 17,2016
9.	Pradosh Parv	May 19, 2016
10.	Narsimha Jayanti Parv	May 20,2016
11.	Main Snan Parv	May 21,2016

UJJAIN DECLARATION FOR WORLD PEACE

In ancient times, the Simhastha, besides being a religious and ritual bath festival used to be an occasion to brainstorm on issues concerning society, nation and mankind. Scholars, seers and sages would exchange views and come out with solutions. Reviving this tradition, Madhya Pradesh government, on the initiative of the Chief Minister Shri Sivraj Singh Chouhan has taken the initiative to hold brainstorming sessions on burning issues facing society, nation and the world. The Simhastha would be preceded by a series of international seminars. The first seminar has already been held in Bhopal which was graced by **Gurudev Jaggi Vasudevji Maharaj**, one of the evolved souls who discoursed on **Value-Based Life**. The subjects of other seminars include **Environment, Spiritual Life** and **Essential Unity of Religions.** Scholars, saints, writers, poets and other enlightened persons would express their views and research papers would also be submitted. Based on the conclusions of these seminars a Maha Sammelan would be held at Ujjain during the Simhastha. On the basis of its gist a Ujjain Declaration would be issued at international level, giving the message of value-based life and global peace, harmony and goodwill.

IMPORTANT PLACES NEAR UJJAIN

- **MAHESHWAR** - The old city on the banks of Narmada was known as Mahishmati. A dip in Narmada here is very auspicious. The city is full of old temples and Chhatris.
- **OMKARESHWAR** - 116 kms from Ujjain, the city is located on the banks of Narmada and had the famous Jyotirlinga.
- **MANDU** - 145 kms from Ujjain, Mandu is the City of Joy. It is the city of legendary king Baj Bahadur and his consort Rupmati. The splendid sight of forts and palaces gives an ineffable joy.
- **INDORE** - The biggest business and trade centre of Madhya Pradesh is only 56 kms from Ujjain. Well connected with Delhi and Mumbai by air and train routes. Now an international airport is there.
- **BHOPAL** - The capital city of Madhya Pradesh is 183 kms from Ujjain by road. Well connected by train and air, this city of lakes is full of beautiful sites.
- **SANCHI** - 60 kms from Bhopal near Vidisha. This is a world heritage site with Buddhist Stupas.
- **MANDSAUR** - Famous for its Pashupathinath Mandir, this bustling city is 191 kms from Ujjain.
- **PACHMARHI** - 200 kms from Bhopal, this is the only hill station of Madhya Pradesh. Beautiful meadows, verdant valleys and bubbling brooks are there to captivate everyone.

Efficient Irrigation Management

MADHYA PRADESH SHOWS THE WAY

"We have learnt a lesson from Madhya Pradesh that we should rev up investment in irrigation projects. So far, we have been giving funds only for infrastructure development. Henceforth, the central government would pay attention to water transportation and minor irrigation projects."

Shri Arun Jaitley, Hon'ble Union Finance Minister

The enviable success of the state in agriculture can be gauged from the fact that while the state registered an 18 percent fall in agricultural production from 1.74 crore MT in 1995-96 to 1.42 crore MT in 2002-03, a mindboggling 181 percent increase has been recorded in 2014-15. The total farm output of the state stood at about 4 crore MT last year. Madhya Pradesh's agricultural growth rate has been above 20 percent for last three years. The state has also been receiving the prestigious Krishi Karman Award from GoI for excellent performance in agriculture for last three consecutive years. Madhya Pradesh has now come to 2nd position from 5th in wheat production, to 7th from the 14th in paddy production and to 5th from the 8th in maize production.

What Madhya Pradesh has achieved in irrigation sector is nothing less than a miracle. The area under irrigation in the year 2003-04 was mere 7.5 lakh hectare which has now increased to over 36 lakh hectares. As many as 5 major, 25 medium and 1230 small irrigation projects have been completed in last ten years.

229 old irrigation projects renovated in 30 districts

The irrigation projects constructed before 1986 in Madhya Pradesh have been renovated. The irrigation potential of 229 irrigation projects in basins of Chambal, Sindh, Ken, Tons and Wainganga rivers in 30 districts is now being fully tapped. This has become possible through Water Sector Restructuring Project aided by the World Bank.

Before implementation of this project, these irrigation projects were irrigating less than half of their potential. Under this Rs. 2498 crore project, old irrigation projects' water distribution system has been improved and assistance provided to farmers of command area in advanced farming, horticulture, animal husbandry and other sectors allied to agriculture.

Impact survey was done through an independent agency National Academy of Agriculture Research Management, Hyderabad. Following visits to concerning areas, the agency has written in its report that good development has been ensured. This became possible through timely availability of irrigation water, use of advanced farming techniques by farmers, judicious use of water and adoption of modern farming techniques.

Increase in actual utilization of Potential

Apart from successful efforts for increasing irrigation potential in Madhya Pradesh, a remarkable increase of 13 percent has also been achieved in actual utilization of created irrigation potential. In year 2003-04 area under irrigation was 7.50 lakh hectares against which irrigation potential has increased to 36 lakh hectares now. At national level 35 - 40% of created irrigation potential is actually utilised. It is about 70% in Madhya Pradesh.

Monitoring of irrigation has been done at the state level electronically. For this, Water Resources Department has received this year's Excellence in E-Governance Award.

Narmada-Kshipra River Link Project

Madhya Pradesh has earned the distinction of translating into reality the former Prime Minister Shri Atal Behari Vajpayee's dream by linking two holy rivers - Narmada and Kshipra. Costing Rs. 432 crore, the project has been completed in a record 14 months period. It will go a long way in saving Malwa region from becoming a desert. Now Gambhir, Parwati and Kali Sindh rivers will be linked with Narmada. The project would irrigate over 16 lakh acre and provide drinking water to 3, ooo villages and 72 towns besides meeting water requirement of industries in Ujjain and Dewas districts.

HIGHLIGHTS

- The Chief Minister personally undertook constant monitoring of progress in irrigation sector.
- Gap between created irrigation potential and actual utilization considerably closed.
- Efficient canal irrigation management led to remarkable success.
- Last-mile projects fast-tracked.
- Releasing of water to the tail-ends of canals ensured through continuous monitoring and proper follow-up.
- MNREGA funds utilized to de-silt and clean canals.
- Rehabilitation of over 1000 minor projects ensured through small investments. Their management revamped that doubled the area irrigated by them.
- Better co-ordination between agriculture, revenue and other departments and district administration ensured.
- Close monitoring through video conferencing and ICT system.
- Live contact with tail-end farmers on mobile phone by the Head of Department to ascertain whether water is reaching there.
- Lift irrigation from canals regularized.
- Canals operated at full supply level to reach water to tail-end.
- Timely repair of canals ensured as and when required.
- Tail-end-first irrigation protocol followed.

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- Rob Enderle, Leading International Analyst

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[1] ITIC 2014 - 2015 Global Server Hardware, Server OS Reliability Report, May 2014.
[2] System x Servers ranked #1 in 1Q14 TBR Customer Satisfaction Survey.

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From the Editor

The Bargain Hunters

Globally, businessmen and financiers with an appetite for extra risk have often made fortunes by buying and selling both distressed debt and distressed assets. Wilbur Ross, Jr., a Manhattan-based investor, with an estimated net worth of over $3 billion, for example, makes his fortune by buying bankrupt or near-bankrupt steel plants, coal mines and textile mills in the US and then turning them around. Paul Singer, founder of Elliott Management, is another billionaire who has made his fortune largely by buying distressed debt of both corporations and countries and then fighting aggressively in court to make super normal profits. His latest battle, when he bought the debt of Argentina at a fraction of its original value and then insisted that he should be paid in full even though the country had cut a deal with other creditors to pay less, made headlines across the globe. Elliott and others, who specialise in distressed country debt, are often called vulture funds because they swoop in on countries that are in serious trouble.

In India, distressed assets have been bought and sold, though not at the same scale as it happens globally. The story goes that Ranbaxy came to Bhai Mohan Singh when the original founders could not pay back a loan they had taken from him. The Indian government has also occasionally sold off public sector companies that were ailing to private players.

A market for pure distressed debt secured by underlying assets, though, did not exist until the last NDA government tried to create a formal mechanism by passing the Securities and Asset Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002. It led to the creation of asset reconstruction companies (ARCs) that could take over non-performing assets on the books of banks that were willing to sell. However, despite its good intentions, nothing much happened on the ground in terms of sale and purchase of distressed loans until Raghuram Rajan became the RBI governor. In fact, the mounting bad loans and capital challenges in the PSU banks also created a fertile ground for sale to ARCs.

Rajan has been pushing the PSU banks to clean up their books, and this has led to a greater willingness to sell. Simultaneously, there is an increased interest in picking up these assets and private players have entered the asset reconstruction arena. In the past two years, assets worth ₹1,02,068 crore in terms of book value have been picked up by ARCs at a price of ₹43,243 crore and the market is picking up pace.

There is still much that needs to be done before Indian financiers can make the kind of money that international players do. A proper bankruptcy law would help greatly as would a better market for corporate bonds. The finance minister has already talked of both in his last Budget speech, and I suspect they will happen in due course.

Our cover story this issue looks at the players and how the market is shaping up. Meanwhile, as we go to press, we have seen both the Greek default as well as a crash in the Chinese stock markets. To check out the effect of the Greek crisis on global markets, see "Graphiti" on page 28. And closer home, how will the Chinese situation affect India? On page 22, read about the reasons for the crash in our Beijing correspondent Ananth Krishnan's story, and the possible impact in Dr Ashok Desai's column (page 26).

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Re: Letters to the Editor

Emerging Giants

This refers to your cover story on companies that grew rapidly in a slowing economy (*Growth Warriors*, July 19). It was worth highlighting the performances of the 18 listed and unlisted companies, which shows how they identified growth avenues in a volatile business environment, and how these entrepreneurs, with innovative ideas, boldly swam against the recessional tide. Kudos to the *BT* team for bringing out such a fascinating article.

Abhinav P., *New Delhi*

Cellphone Growth

This refers to your article on mobile phones (*Making a Good Call*, July 19). The acclaimed "Make in India" and "Digital India" initiatives must be tempered to lend space for greenfield projects and accelerated productivity of the existing facilities towards the promotion of Indian MNCs in this sector. Indian mobile companies must be given tax holidays and there is a need to facilitate with a single-window service, extending liberal countenance during gestation. These companies must deepen their R&D endeavours to have an edge in aesthetic outlook, elegant design, vibrant functionality and other value-added features, over others. They must tie up with service providers and customers to create a win-win situation. The mobile segment must be given due importance by policy-makers to take the country on an enviable fast growth trajectory.

B. Rajasekaran, *Bangalore*

Power Debts

This refers to your article on the power sector (*A Glass Half Full*, July 5). It is a matter of shame that even today households remain plunged in darkness endlessly. Various power generation projects have hit the ground running, and investment flow in the sector has increased in the past year. Coal auctions and low crude prices should have actually benefited these companies. So, if everything is falling in place, why are they still not being able to deliver? Clearly, it is more of a managerial issue now, considering the huge debts power companies are still reeling under. It is time for them to come of age, bring in fresh blood, overhaul and reinvent themselves. Also, focus should shift on curbing leakages, preventing theft, ensuring payments and sourcing supply at the right prices. These companies should now start investing in renewable projects as they are bound to give massive returns in the long run.

Gaurav Gupta, *Pune*

Send all your comments to: editor.bt@intoday.com

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BRICS bank to set its own standards; no rivalry with others, says NDB President K.V. Kamath.
It can become an associate of IMF.
- **M. Ramanathan**, *@ramanathanmuth7*

Greece seeks three-year loan deal from EU to avert collapse.
It is better for euro-zone to accept the proposal and save EU from collapse. - **Dr Radha Mohan Agrawal**, *@AgrawalRMD*

Global crude oil price falls to $56 per barrel on Greece, China impact; India gains.
But still petrol prices in India don't reduce. - **Veer Pratap Singh**, *@Veer_vin*

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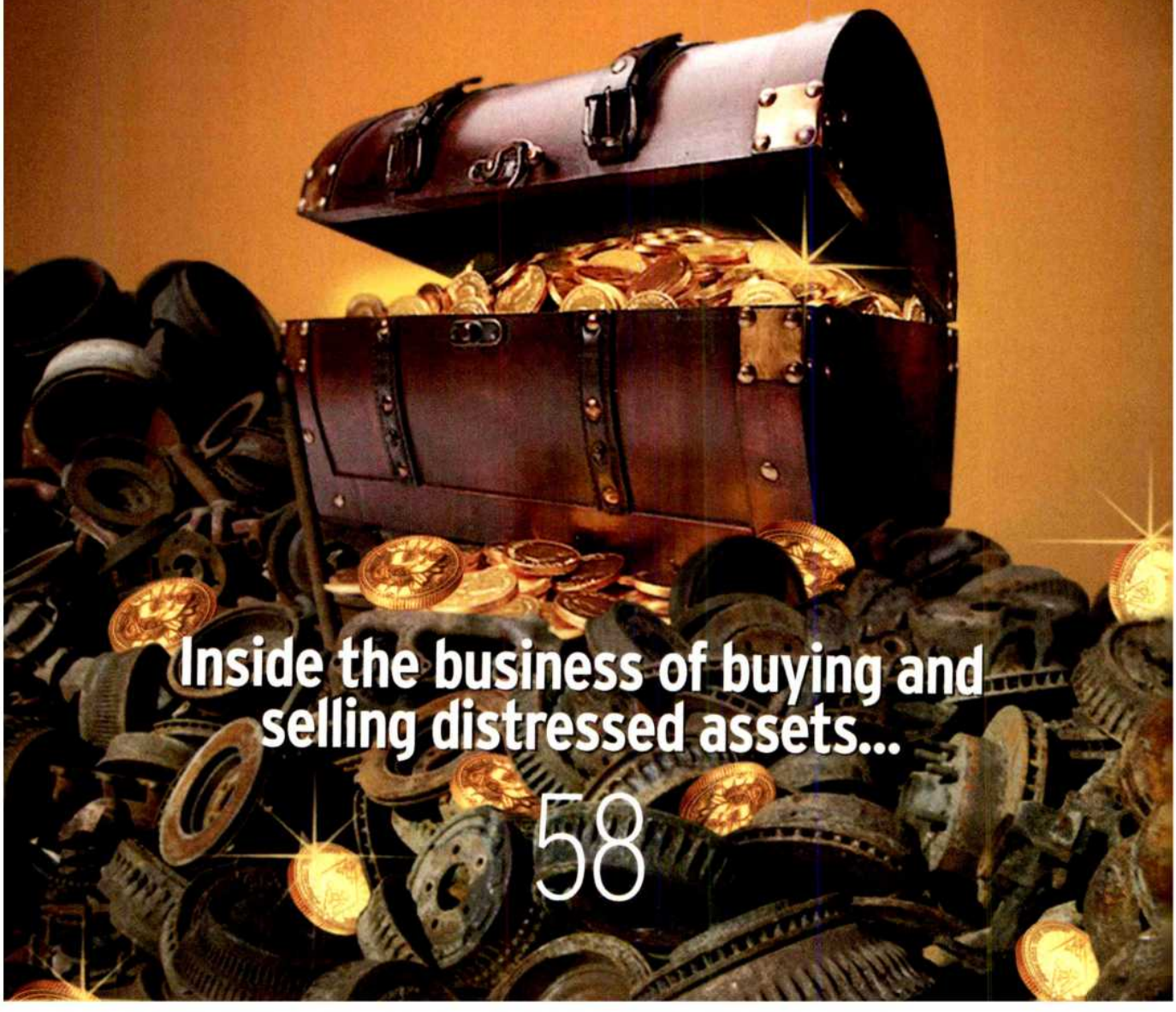

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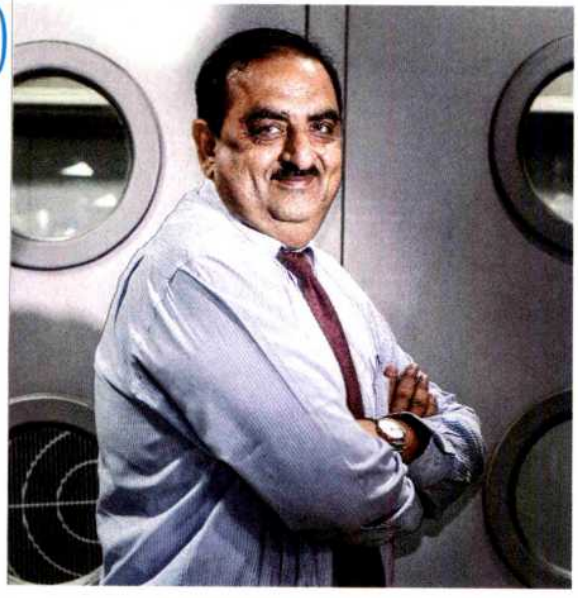

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PSBs Pay Better
Roopank Chaudhary and **Aditya Nanavaty** of McLagan, explain why public sector banks are the ideal paymasters.
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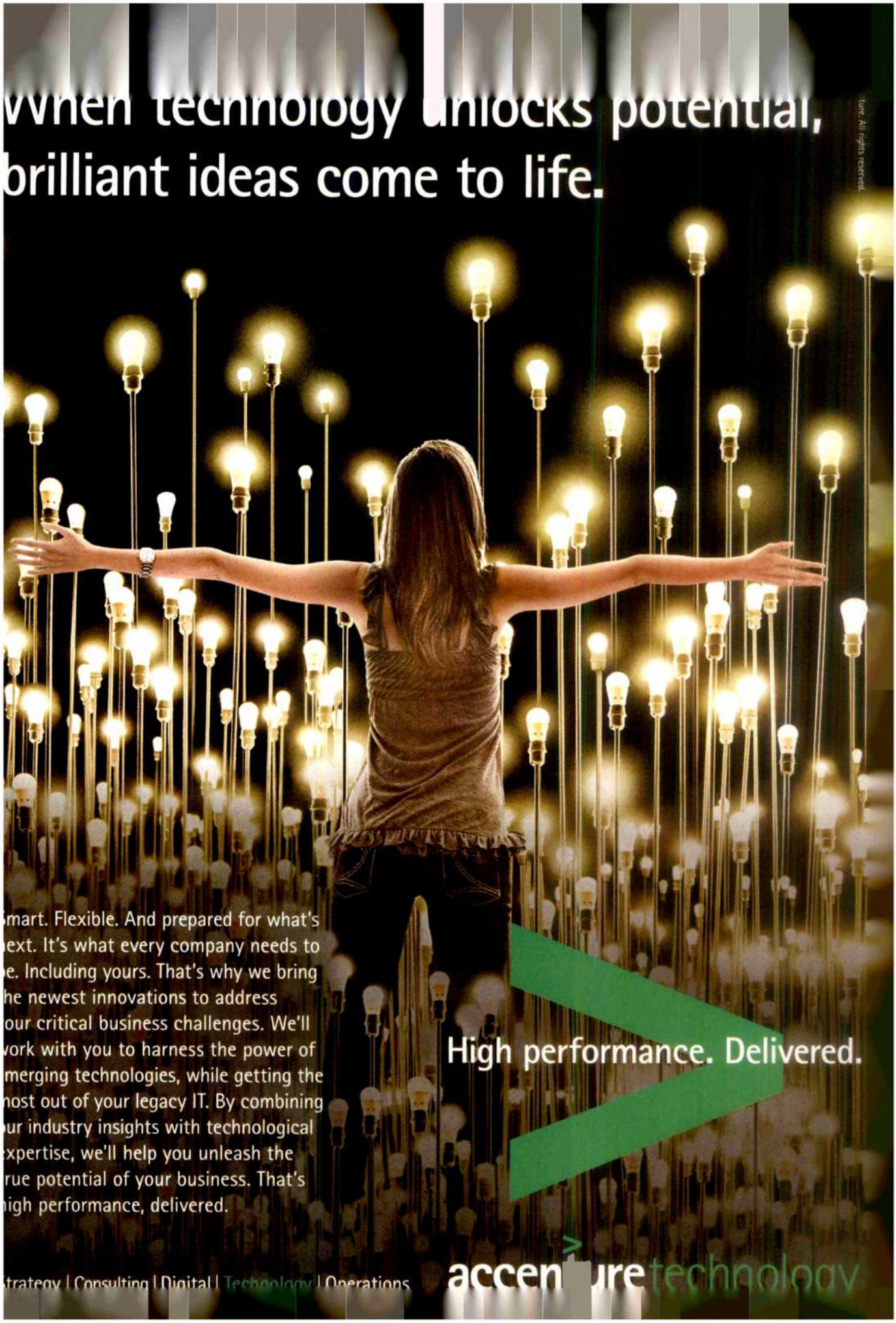
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RAJ VERMA

BUSH BUSINESS

US Presidential elections, due next year, may turn out to be a show of financial transparency. Republican candidate Jeb Bush released 33 years of tax records that traced his path to a net worth of between $19 million and $22 million, reports Reuters. The pressure is now on Democrat Hillary Clinton and Bush's Republican rivals to declare their wealth. Hillary and husband Bill, the former president, said they had earned more than $25 million for delivering 104 speeches since 2014.

PALACE POLITICS

Rajasthan politics is usually full of royal intrigue, and its palaces usually hog the limelight on the tourist circuit. In a departure of sorts, Dholpur Palace, known as the luxurious Raj Niwas Palace Hotel, is in the eye of the Lalitgate storm in Rajasthan. The opposition Congress claims it is government property and backs it up with Archaeological Survey of India documents. The BJP claims it was stamped as a royal property by the UPA regime.

DRAGON ON A ROLLER COASTER

The stock market crash in China overshadows the crisis in Greece. The numbers in a nutshell...

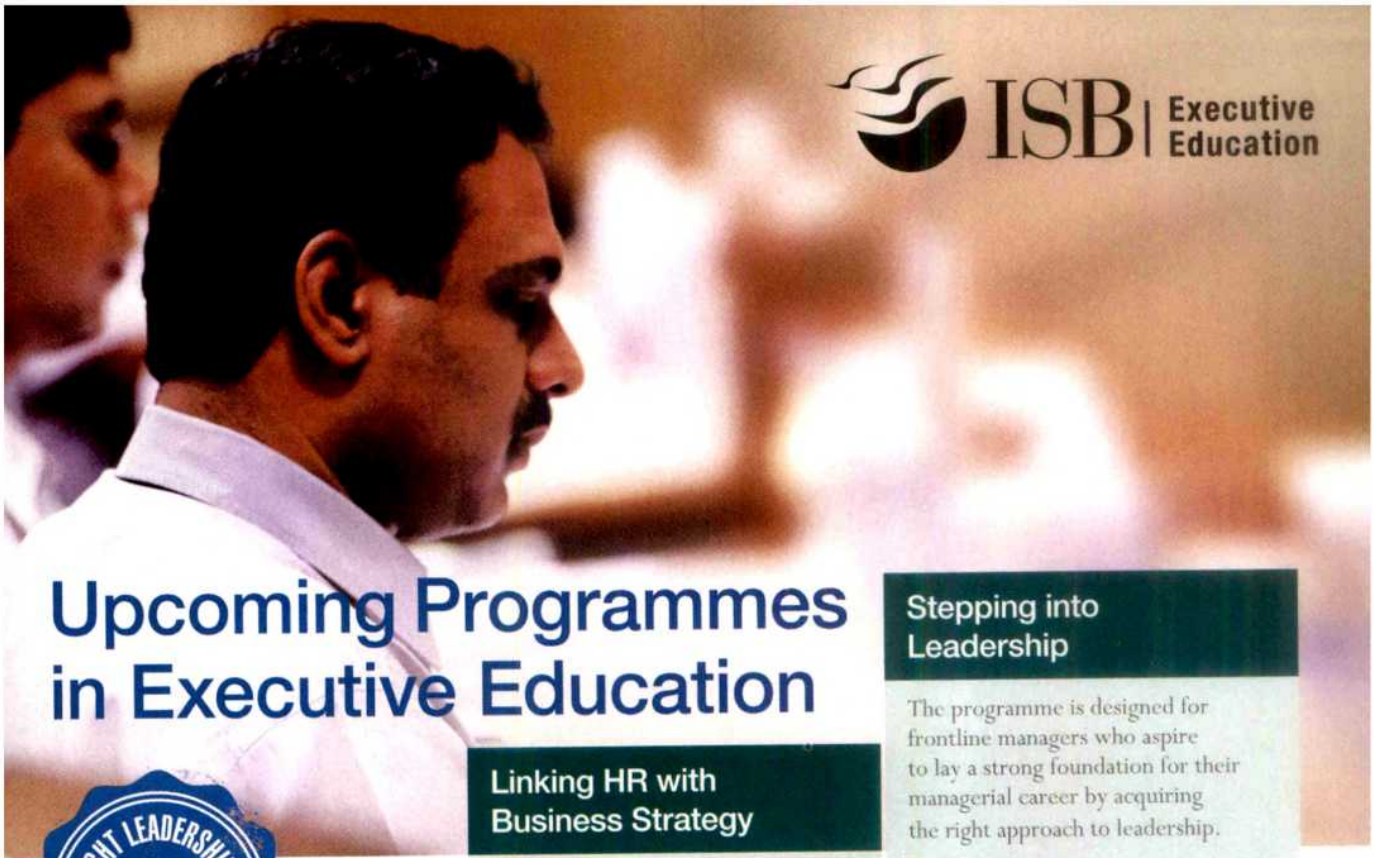
$3.25
TRILLION
Chinese stock market losses since June 12

$238.02
BILLION
Greece GDP 2014

In the largest corporate settlement in US history, BP Plc will pay this amount as penalty to the US government and five states to resolve nearly all claims related to the deadly Gulf of Mexico oil spill in 2010. The payment, to be approved by the courts, will be over 18 years. The rig explosion, the worst offshore oil disaster in US history, killed 11 workers and spewed millions of barrels of oil onto the shorelines of several states for nearly three months. BP shares jumped more than five per cent in New York trading immediately after the announcement.

MAMATA AND *ACHCHE DIN*

Back home, West Bengal Chief Minister Mamata Banerjee is preparing for *Achche Din* ahead of the state polls next year by ending a decade-old informal freeze on mass recruitment. She has announced a plan to hire 1.2 lakh peons and clerks, besides 70,000 teachers. The opposition is tongue-tied as no one can dare question this profligacy just before the polls. The move is estimated to cost up to ₹304 crore a month (₹154 crore on teachers, ₹84 crore on Group C and ₹66 crore on Group D staff). This will inflate the state's salary bill by 7.5 per cent.



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21

ALL EYES ON SIKKA

WHAT: Quarterly results of Infosys
WHEN: July 21

WHAT TO LOOK FOR: The software industry is eagerly waiting for the first quarter results of Infosys to find out how it has been performing under its first non-founder Chief Executive Vishal Sikka. Wipro will reveal its numbers on July 23. India's top IT companies had posted disappointing numbers in the third and fourth quarters of 2014/15, and TCS showed muted growth this quarter.

RAJ VERMA

21 – 13

HOUSE NOT IN ORDER

WHAT: Monsoon session of Parliament
WHEN: July 21 to August 13

WHAT TO LOOK FOR: The Modi government is set to face a determined Opposition on Lalitgate, which may throw a spanner in the works of its plans to push a strong legislative agenda. The Centre is looking at getting at least 17 Bills cleared by both Houses and will require cooperation from all parties. The land acquisition, real estate, and Goods and Services Tax legislations, which are being examined by parliamentary committees, are crucial to its reforms push.

20 – 24

COUNTING ON LABOUR

WHAT: Indian Labour Conference
WHEN: July 20, 21

WHAT TO LOOK FOR: The conference is being held for the first time in over two years. Prime Minister Narendra Modi is likely to address the inaugural session of the 46th session of the ILC. The meet is being organised against the backdrop of a looming strike threat by trade unions opposing the Centre's September 2 labour law proposals, especially the one regarding easing of norms for hiring contract workers.

15

OFFLINE ON ONLINE

WHAT: Centre-State meet on e-commerce
WHEN: July 15

WHAT TO LOOK FOR: The Commerce and Industry Ministry will discuss foreign direct investment in e-tailing and relevant tax issues with representatives of state governments. The sector's market size in India is estimated at around $5 billion annually. Global retail giants, including Amazon, along with domestic players want the government to relax foreign investment norms for e-commerce.

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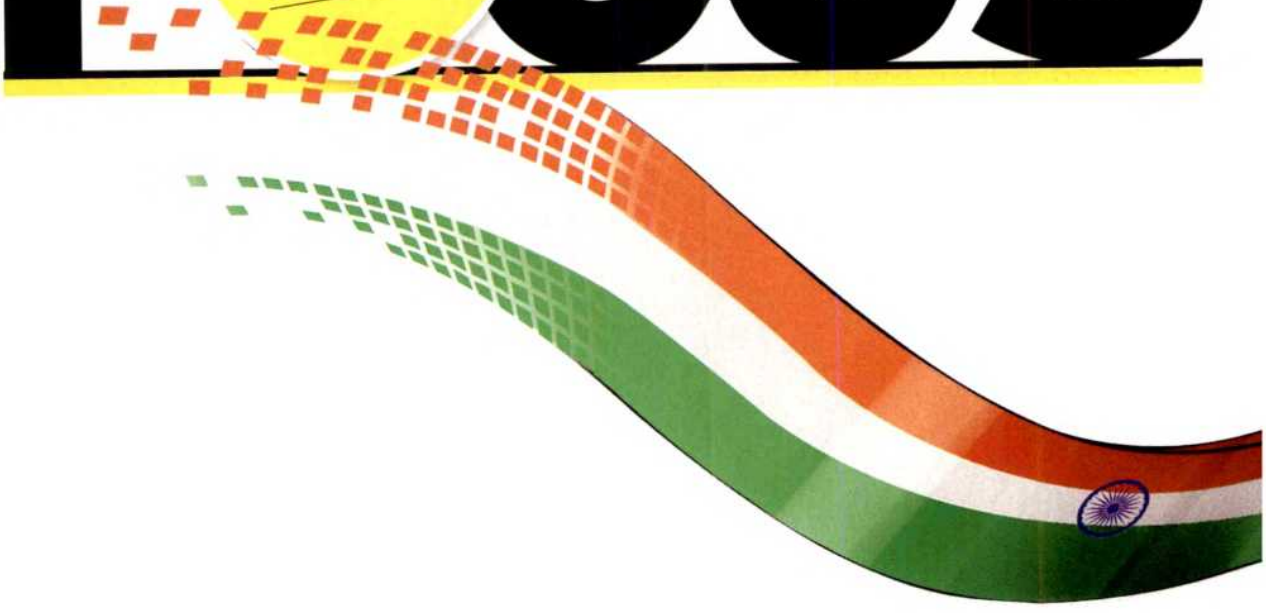
22 Bears in the China Shop

28 Graphiti: The Greek Meltdown



Packet Loss for e-India?

The sheer scale of the Digital India programme and the coordination it requires from both the government and private players may throw it off track. By GOUTAM DAS

Digital India is essentially a pulling together of older schemes. It is a repackaging of the UPA government's programmes

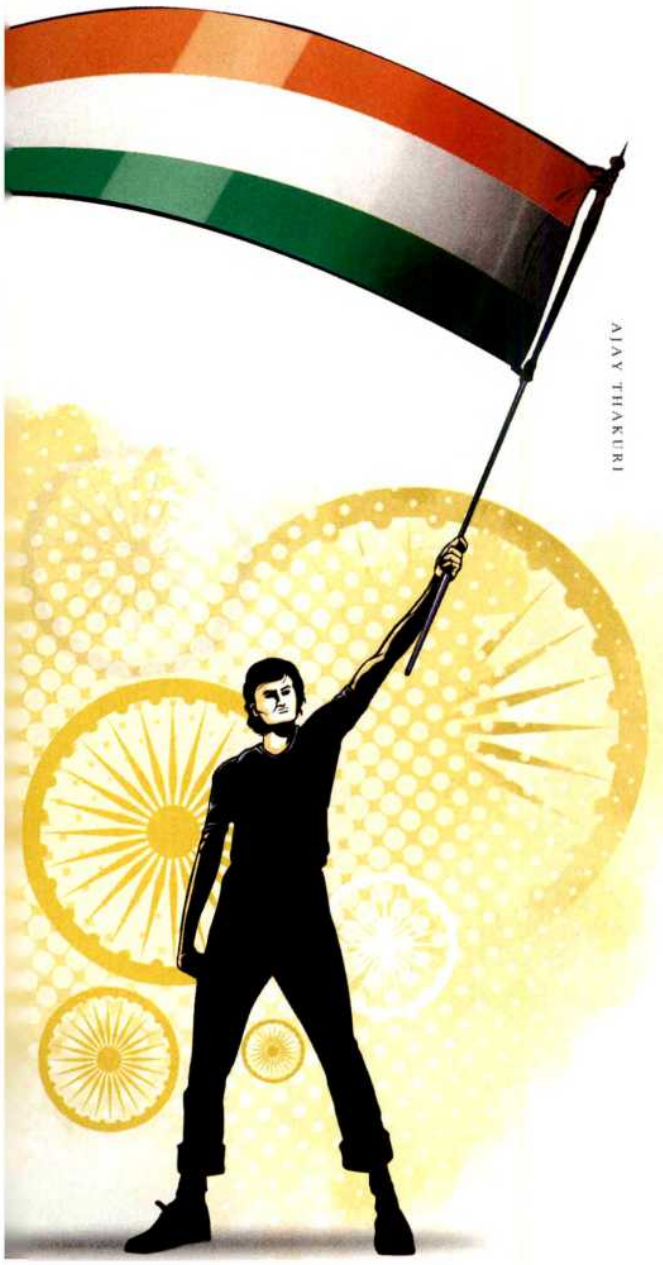
Around March 2014, Devendra Verma, a US-based venture capitalist (VC), and the co-founder, Chairman and CEO of Hindustan Semiconductor Manufacturing Company (HSMC), was elated. The Union Cabinet had approved two semiconductor manufacturing facilities, one of which happened to be his Gujarat project at a cost of ₹29,013 crore. "Our chips can be used at least for government products that are manufactured in India," Verma had told *Business Today* back then.

Nearly 15 months later, the script appears to have gone a bit awry. Verma faces a billion dollar question from his investors: "Who is your customer?"

The company does not have an anchor customer yet and all the Indian electronic product companies Verma has approached till now seem to be happy importing chips from overseas. A large multinational has

also refused him business saying their fab labs in China and Korea are yet to achieve their desired capacity utilisation. However, Verma is not giving up yet, and wants government to do more.

Part of Prime Minister Modi's recently-launched Digital India programme will be crippled if domestic manufacturers do not source electronics locally – one of the stated targets of the programme is to achieve 'net zero imports by 2020'. According to the India Electronics and Semiconductor Association, the Indian Electronic System Design and Manufacturing (ESDM) market will grow from $76 billion in 2013 to $94 billion in 2015. The industry is expected to touch $400 billion by 2020.



AJAY THAKURI

However, local production and services is estimated at only $100 billion. This implies a demand-supply gap of $300 billion. The target of zero imports, therefore, is an arduous one, and is unlikely to be achieved unless the government figures out a way to coerce manufacturers into buying domestic components.

That's a tough ask. Also because Digital India, rather ambitiously wants to stitch many existing schemes from different ministries as well as departments to "prepare India for a knowledge future". It will rest on nine pillars. Apart from electronics manufacturing, there are broadband highways, universal access to phones, public Internet access programme, e-Governance, electronic delivery of services, information for all, jobs and, what the government calls, 'early harvest programmes'.

But since Digital India is essentially a pulling together of older schemes it is also a repackaging of the UPA government's programmes: Old wine in a new bottle. But, it takes a lot of good beer to make great wine – goes an old saying.

Let us sample some of the good beer brewed by the UPA which Prime Minister Modi now seeks to leverage. Although execution was a challenge, the UPA government's policies were steps in the right direction. In 2006, it approved the National e-Governance Plan (NeGP) that comprised 27 mission mode projects. Two important transformations here were the Passport Seva Project in 2010 and the MCA21 project, launched by the Ministry of Corporate Affairs to facilitate e-filing. Similarly, the concept of a unique identification was first discussed in 2006 and the Unique Identification Authority of India (UIDAI) was set up in 2009. Nearly, 82 crore Aadhaar numbers were generated by April 2015. The UPA government also had a vision for rural broadband. The government, in 2011, had approved setting up of the National Optical Fibre Network (NOFN) to provide connectivity to 2.50 lakh Gram Panchayats at 100 Mbps bandwidth, each. And in 2012, the Cabinet had approved the National Policy on Electronics with a target to boost domestic manufacturing and cut imports.

Announcements of investments by industry leaders made juicy headlines during the launch of Digital India – but that, too, were mere optics. Not all of it is fresh money; most of the investment and employment plans had already been frozen much ahead of the campaign.

Overall around ₹4.5 lakh crore worth of projects related to Digital India were pledged. Reliance Industries Chairman Mukesh Ambani had said he would invest ₹2.5 lakh crore in the rollout of wireless broadband infrastructure, among others. But a year ago, in June 2014, Ambani announced that its 4G services company Reliance Jio Infocomm would commercially launch the services in 2015, which involved investments of

₹70,000 crore. In a report released in June this year, brokerage house Kotak Institutional Equities said it expects Reliance to make $17 billion of cumulative investments in telecom by 2016/2017.

Kumar Mangalam Birla, Chairman of the Aditya Birla Group, said that Idea Cellular would invest $7 billion over the next five years in network roll out. But the company had already planned its capex of around ₹5,500 crore for 2015/2016 a while back. Cyrus Mistry, Chairman of Tata Sons, said that Tata Consultancy Services would hire 60,000 IT professionals this year. However, the HR head of TCS, Ajoy Mukherjee, had earlier announced the company's hiring plans, soon after TCS had announced its fourth quarter results in April.

PRIME MINISTER NARENDRA MODI'S DIGITAL INDIA PROGRAMME WILL BE CRIPPLED IF DOMESTIC MANUFACTURERS DO NOT SOURCE ELECTRONICS LOCALLY

The Big Idea

So what's new? There are disparate investments by private companies and the government. Different programmes run in isolation. The big idea is to make them part of a larger goal. The idea of an umbrella programme, says the government, will make this mission "transformative".

The hope is that the participating agencies and companies will rally behind a central theme. Programmes in India lose energy and a central theme with better monitoring may just keep them going. The government is likely to hunt for common linkages and probably standardise many e-governance initiatives, for instance. That way, many states will have a shorter learning curve.

THE HOPE IS THAT THE PARTICIPATING AGENCIES AND COMPANIES WILL RALLY BEHIND A CENTRAL THEME TO MAKE DIGITAL INDIA A SUCCESS

Transformations, which involve cultural change, are never easy. The breadth of things the programme wants to cover makes it even more complex. Take the case of NOFN. The programme, under the UPA government, was progressing at a snail's pace and the present government may speed it up. But, what next? Without reliable power supply, NOFN will be ineffective. Even if the 2.5 lakh Gram Panchayats are lit up with broadband, villages today have no clue about what to do with it. There are no applications, no content to consume. Dr Sumit Chowdhury, former president of Enterprise Business at Reliance Jio, clubs a set of applications that could work under the term 'Utopian Digital Village' – it must be a set of common cloud-based applications delivering bookless schools, doctorless clinics, paperless commerce, and a cashless economy.

WHAT IS DIGITAL INDIA?

1. An umbrella programme covering many departments
2. Weaves together a large number of existing ideas and schemes
3. The programme has nine pillars
4. It is coordinated by DeitY and is implemented by the government
5. The Prime Minister is the Chairman of the monitoring committee

And, here comes the second bottleneck. Who is going to invest in creating these applications? The private sector may not be interested in a public private partnership (PPP) – projects in the villages may not be commercially viable. Som Mittal, the former president of NASSCOM and part of an expert committee constituted by the Department of Telecommunication on NOFN earlier this year, thinks there will be a problem even in funding the infrastructure to connect the villages. The initial budget for NOFN was

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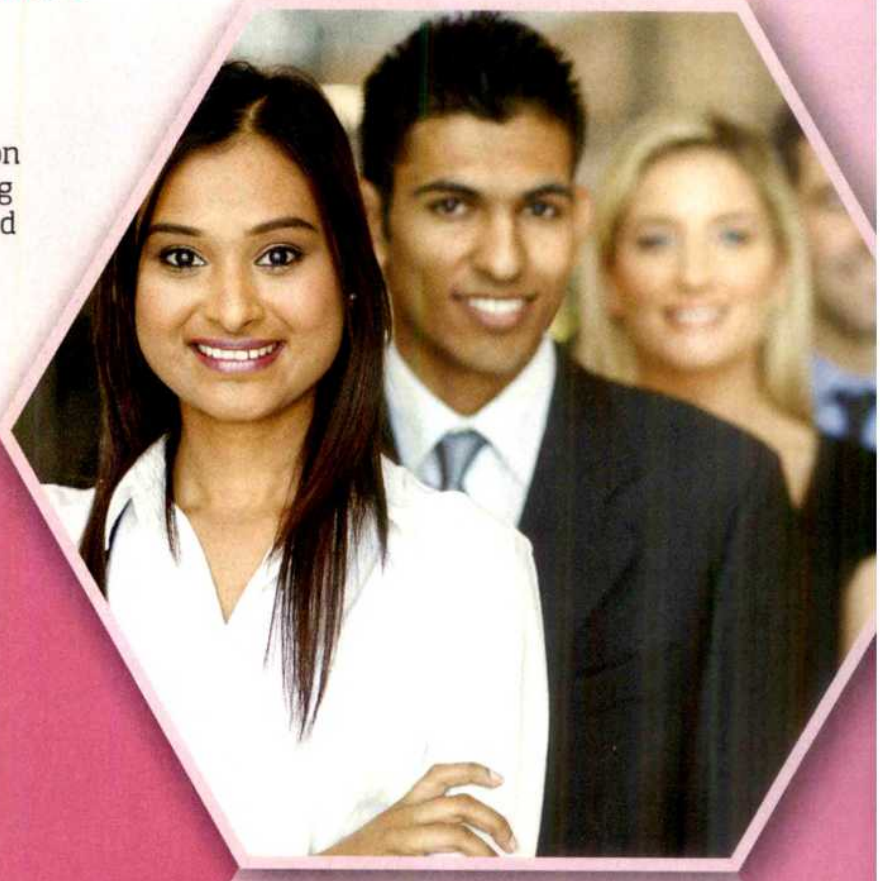

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around ₹20,000 crore. Today, it would cost ₹70,000 crore because of a new architecture recommended by the expert committee.

There is another reason why the private sector may not be interested in funding such projects. According to NASSCOM, about ₹5,000 crore in contract payments to technology companies are still stuck with the government from previous projects. The Goods and Services Tax Network (GSTN), a company formed to provide the technology backbone for India's most ambitious indirect tax reforms, recently discovered the cynicism when it went scouting for vendors. GSTN had to meet IT industry representatives many times before it could convince some to participate in its requests for proposal.

Structural Issues

Other issues in the roll out of Digital India are more structural. The government may not have the institutional capacity to execute a programme of such massive scale. *Business Today* recently spoke to the former Minister of State with the Ministry of Information Technology and Communications Milind Deora. He listed many issues that could throw a spanner in the works – lack of a stand on net neutrality, no mention of The Electronic Delivery of Services Bill, 2011 (which required public authorities to deliver all public services electronically within a maximum period of eight years), lack of clarity on privacy, cyber security, and limited human resources capacity in the government.

Not all of what Deora is saying is about taking potshots at the government. It will indeed be a challenge to monitor the whole programme. In the current governance structure, a monitoring committee, chaired by the Prime Minister, will oversee the execution. The Finance Minister, Minister of Communications and IT, the Minister of Resource Development, Ministry of Human Resource Development, and Ministry Health would constitute the rest of the committee. Special invitees would include the Principal Secretary to the PM, Cabinet Secretary, Secretaries of Expenditure, Planning, DoT and Posts, as well as the Secretary of the Department of Electronics and Information Technology (DeitY).

That's a powerful club but to execute a vision of this scale, one would require more professional programme management skills, and a body that can coordinate across ministries and states.

The government realise some of its limitations. DeitY's website has a presentation on Digital India and it must have been prepared by a brutally honest babu. The human resource issues Deora hinted at are listed in bullet points. "NIC (National Informatics Centre) – not equipped for a fraction of this task"; "DeitY – needs programme managers – at least four more officers at senior levels"; "Ministries – Need a Chief Information Officer or Chief Techno-logy Officer".

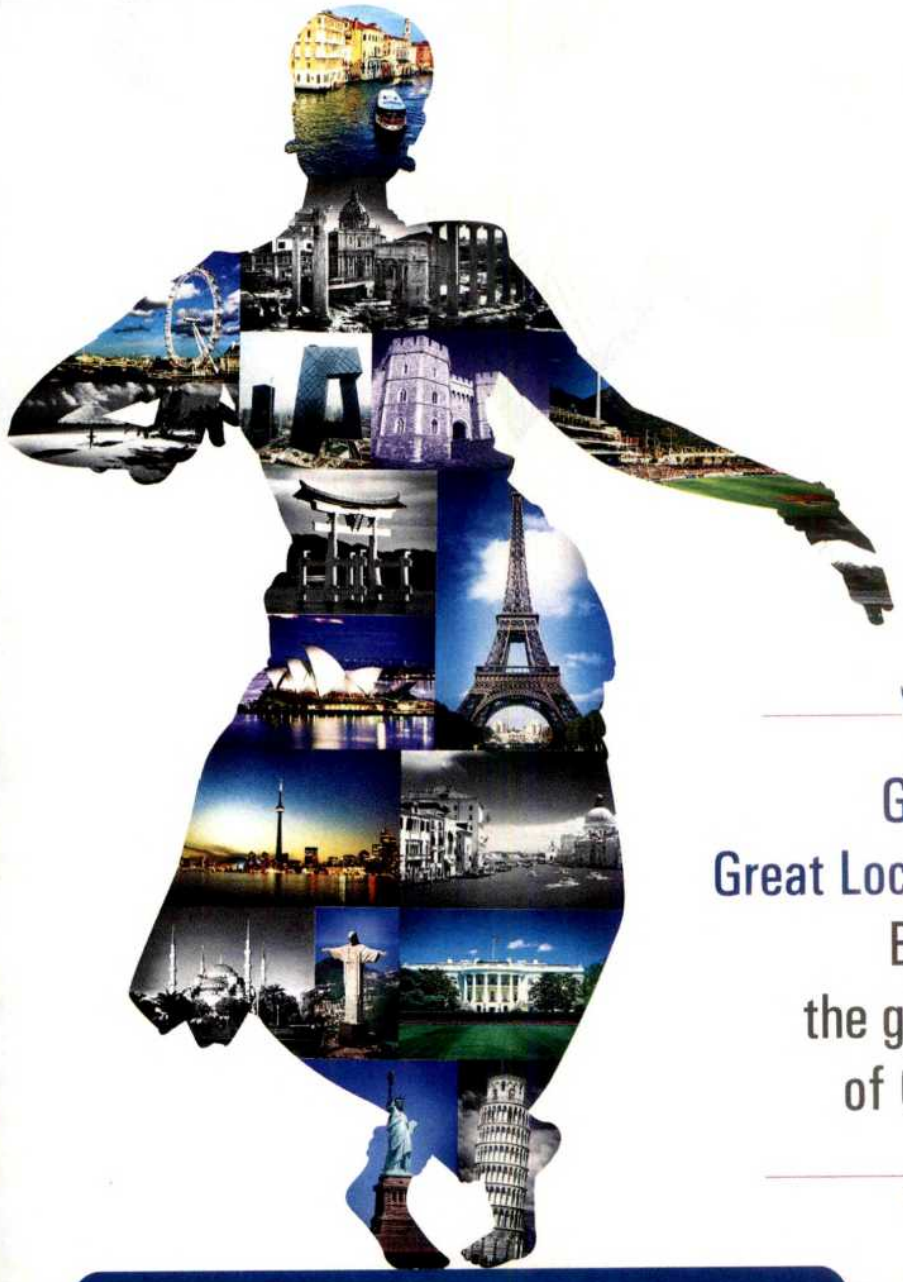
The last slide of the presentation has India's 2014 global ranking on the ease of doing business – No. 134. If the grandiose plans are executed properly, the Digital India initiative could well help the country salvage its reputation. ◆

@Goutam20

TARGET BY 2019

1. Broadband in 2.5 lakh villages, universal phone connectivity
2. Net Zero imports by the year 2020
3. 400,000 Public Internet Access Points
4. Wi-Fi in 2.5 lakh schools, universities; and public Wi-Fi hotspots for citizens
5. Digital Inclusion: 1.7 crore trained professionals for IT, telecom and electronics jobs
6. Job creation: 1.7 crore direct and, at least, 8.5 crore indirect jobs
7. e-Governance and eServices across all state and central government departments
8. Digitally empowered citizens – public cloud, Internet access

THE CENTRAL GOVERNMENT MAY NOT HAVE THE INSTITUTIONAL CAPACITY TO EXECUTE A PROGRAMME OF SUCH MASSIVE SCALE



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AJAY THAKURI

Bears in the China Shop

The recent unprecedented crash in the Chinese stock market has dented investor confidence. By ANANTH KRISHNAN

China is waging an uphill battle to restore battered investor confidence after an unprecedented crash in the stock market wiped out one-third of its value – close to $4 trillion – in a matter of three weeks. While the stock market crash is unlikely to have a prolonged impact on the already slowing down Chinese economy, experts in Shanghai and Beijing say that a Chinese economy that is in flux will certainly have a bearing on the region on account of falling demand for commodities and an increasingly uncertain future for Chinese financing of overseas projects as banks at

home begin to grapple with a new reality.

The crash in the benchmark Shanghai Composite Index – which fell on July 7 to a low of 3,507, down by a remarkable 32 per cent from a high of 5,166 on June 12 – prompted a panicked government intervention: a six-month moratorium on selling stocks for any investor who owned stakes of more than five per cent of a stock, coupled with a halt on trading for more than one-third of all listed companies who were faced with margin calls.

The collapse followed a record-breaking bull-run: only in November 2014, the Shanghai index was at 2,400 before a government-encouraged campaign to boost the market, in part motivated by a long-term plan to push state-owned enterprises to go to the market to address persisting debt problems.

"The bull market was a classic asset bubble," Oliver Rui, Director of the CEIBS-World Bank China Centre for Inclusive Finance in Shanghai, told *Business Today*. This was fuelled by a combination of government stimulus and "investor frenzy". "Unfortunately, highly-leveraged greedy individual investors hijacked this initiative," says Rui. As the government last month moved to clamp down on debt-fuelled margin trading, the sell-off began. "That is what caused the market to panic," he adds.

On July 8, a record 112 billion yuan (around $18 billion) was unloaded by traders, capping two weeks of losses. The government's intervention – which included directing brokerages to buy billions of yuan worth of stock and routing 260 billion yuan (around $42 billion) from the state-controlled China Securities Finance Corporation, besides enforced restrictions on selling – prompted a rebound on July 9, with the Shanghai index rising by five per cent.

"SOME CHINESE MIDDLE CLASS ENTERED THE MARKET TO PURSUE IMMEDIATE BENEFITS ... FLUCTUATIONS DO NOT MEAN THAT THE FUNDAMENTALS OF THE ECONOMY ARE NOT GOOD"

Xing Houyuan, Deputy Director of the Research Institute run by China's Ministry of Commerce

Uncertain Future

The mini-rebound notwithstanding, China's stock market faces an uncertain future. For one, the government intervention has dented the credibility of a market already famous for its rollercoaster swings.

The Chinese stock market is somewhat unique in the predominance of retail investors. As much as 84.1 per cent of investors have account balances less than 100,000 RMB (₹10 lakh) and 10.39 per cent have balanced between 100,000 and 500,000 RMB (between ₹10 lakh and ₹50 lakh), says Rui. Many of the 90 million investors on the Shanghai stock market are new entrants, prompted by the bull-run of the past year.

Only six per cent of them have a college degree.

The consequence is a market that is not often the most accurate reflection of what is happening in the real economy. In November, when China was grappling with a slowdown – the government cut annual GDP targets for 2015 to seven per cent, a target that today appears increasingly challenging – the market went on a bull-run. Similarly, the current crash does not suggest that the situation of the real economy is just as dire, says Xing Houyuan, Deputy Director of the Research Institute run by China's Ministry of Commerce. "Some Chinese middle class have entered the stock market to pursue immediate benefits and returns," she says. "They have earned some money so more people now put their money into stocks. Fluctuations do not mean fundamentals of Chinese economy are not good."

That is, however, true only up to a point. While the sell-off in Shanghai may be more a result of government tightening on margin lending – rather than a reaction to economic

indicators – the problem for the government that its intervention may have made an already opaque market further skewed. The government's move to prop up the market has already likely dented China's ambitions of internationalising its yuan (or renminbi) and introducing broad financial reforms to address debt problems in the State sector.

Overcapacity in manufacturing: Chinese workers at a textile factory at Hefei in east China's Anhui province

Impact on Region

The wider fear is that the consequences of debt-fuelled trading could spillover to the banking sector. "At the moment, it is only the stock market that faces a systematic risk. If the market is not quickly calmed, the pessimistic sentiments will spill over to the banking sector, and eventually it could affect the real economy," says Rui.

"Some insiders believe a significant portion of capital used for margin trading actually comes from the asset management products issued by the banks. Some also believe that some entrepreneurs have invested in the stock market using operating capital. The crisis could slow down the speed of deepening financial reform including marketisation of interest rate and internationalisation of the renminbi".

Since China's financial market is relatively isolated, the impact on the region is likely to be limited beyond concerns in investor sentiment that have already been reflected in a number of Asian markets in recent days. However, if China's banking sector is pulled into the crisis, it will likely put a spanner in the spate of "going out" lending agreements that its banks have been encouraged to offer in the past year.

Last year, outbound investment from China for the first time exceeded foreign direct investment. With India alone, China signed $22 billion worth of agreements in May when Prime Minister [Narendra] Modi visited China.

Most of these were financing arrangements, such as from the China Development Bank for the purchase of equipment by Bharti Airtel and Adani Power, and from the Industrial and Commercial Bank of China (ICBC) for Bharti Airtel and Infrastructure Leasing & Financial Services Ltd for infrastructure projects.

Beyond the stock market, the Chinese economy is also dealing with the larger problem of overcapacity in several sectors. While economist Arvind Virmani, formerly chief economic advisor to the Indian government and executive director of the International Monetary Fund, suggests that reduction in excess capacity in manufacturing in China could actually aid the global recovery, Beijing has at the same time moved to export this overcapacity through its ambitious $ 100 billion "Silk Road" initiative.

Xing, of the Commerce Ministry think-tank, says that regarding the overcapacity problem, China's view is that this "production capacity is by no means backward so they should not be exceeded or eliminated, and if there is any need in the international market they have value".

For instance, the government is pushing new energy and solar firms, which are struggling at home because of low demand, to go overseas.

"We will upgrade our technology and industrial capacity so that we will transform our economic growth model, and at the same time transfer some competitive production capacity to countries along the Silk Road," says Xing. Whether they will be welcomed beyond China's borders is another question. ◆

THE CHINESE ECONOMY IS DEALING WITH THE LARGER PROBLEM OF OVERCAPACITY IN SEVERAL SECTORS

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By ASHOK V. DESAI

China's Moment of Truth

The dragon is slowing but its declining prowess will not necessarily improve India's economic performance

The Shanghai Composite index declined by almost a third in a month; then it jumped six per cent in a day. Stock markets like to leap and crash, but this is a bit extreme. It caused reverberations because it involves the Chinese economy. It grew at an annual average over 10 per cent from 1979 onwards. Such high, sustained growth is unknown in world history. At its end, China's gross domestic product, valued at the same prices (called PPP in economic jargon), was about the same as that of the United States, which has been the world's largest economy for a century. Its manufacturing value added in 2013 was a third higher than the US's. Indians may not like to dwell on these figures since our economy has been left behind but just in case we feel cheered up by the crash in China's stock market, we should worry about its global impact. The collapse of the US economy in 1929 had such widespread and persistent effects that it came to be known as the Great Crash. Are we about to see a Grand Crash courtesy China?

This is not the first time that the Shanghai Composite has given the world a scare. It rose fourfold in less than a year in 2007/08, and then came down by two-thirds the next year. Shanghai Composite is not China's Dow Jones. In the year preceding the recent crash, Shanghai Composite rose about 50 per cent. Hang Seng, the Hong Kong stock index which is China's other major index, rose about 15 per cent. Shanghai Composite is not representative of the Chinese economy in the same way as Dow Jones is of the US: its stocks cover much less even of Chinese manufacturing, and its investors are relative rookies, not well-heeled, long-term investors.

The difference reflects the relative importance of stock markets in the two economies. Wall Street is the world's biggest stock exchange, and attracts companies from all over the world. Shanghai does not even list Hong Kong companies, let alone those from the hinterland. Many of China's biggest companies are not listed anywhere; they are owned by the government. And local, unlisted companies are an important component of China's industry.

But independently of its stock indexes, the Chinese economy has been slowing down. To prevent it, the government made the banks it owns give cheap loans to their individual clients. They used the loans to invest in real estate. As a result, China has seen an unprecedented construction boom in recent years. And they invested some of the loans in shares. That led to the stock market boom in the country – whose end may be nearing.

However, what matters is the real economy. Its growth is extremely volatile; to draw some reliable conclusions, I have taken four-quarter averages. They are close to 1.8 per cent a quarter or seven per cent a year for the past three years. That is not very illuminating. The savings ratio is equally stable, and equally uninformative. Power consumption in the first quarter of 2015 grew 0.8 per cent over the previous year, residential investment rose 2.6 per cent, while industrial investment fell 0.6 per cent. These are strong indications that China's growth has slowed down.

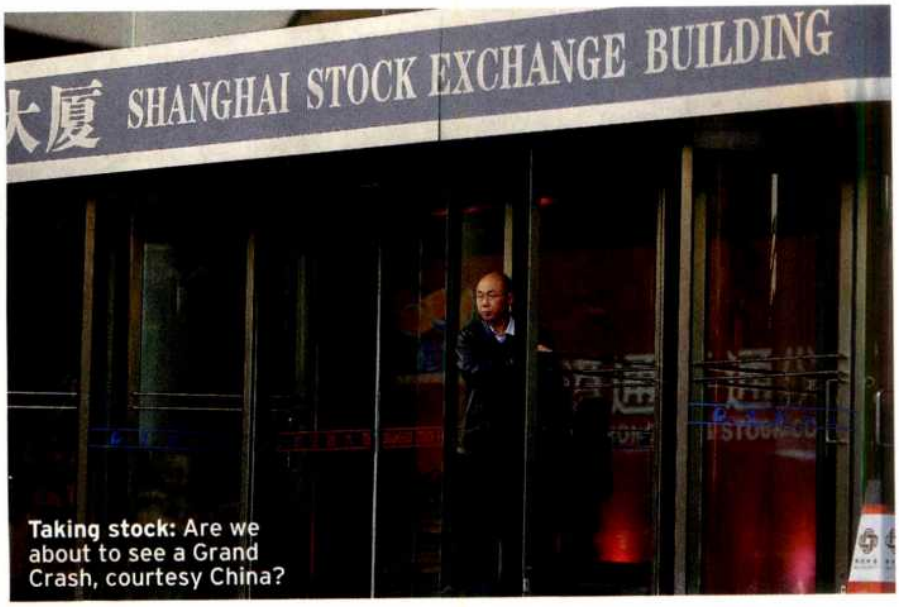
Its trade growth shows an even more drastic deceleration. Between 1990 and 2008, China's exports and imports grew at close to 20 per cent annually. After 2008, however, their growth rates came down to nine per cent. This no doubt has consequences within China that are not disclosed by the statistics but they must also have an impact on China's partner countries. China is a dominant market for the exports of some of its neighbours – Mongolia, Turkmenistan and North Korea – as well

***Ashok V. Desai** is an economist and former chief consultant to the Ministry of Finance*

as for some African countries – Gambia, Mali, Sierra Leone and Congo Democratic Republic. Most of them also receive a high proportion of their imports from China; apart from them, China is a major exporter to Kyrgyzstan, Togo, Benin, Burma, Kazakhstan, Vietnam and Bangladesh. By and large, the countries that are most heavily dependent on trade with China are those in Asia, especially East Asia, and in Africa, especially those with resources of use to China, and those on which its has showered aid.

The Great Depression was global. It left few nations untouched. A Chinese depression will also be widespread, since its major trade partners are the big economies of the world, especially the US, EU and Japan. But many smaller countries will also be affected, especially China's Asian neighbours, and beneficiaries of its aid. Whether the Sinic depression will be greater or smaller than some other depression is unanswerable since it will depend so much on international policy responses. What is more certain are its geographical dimensions.

When we look at the picture in this detail, it becomes clear how inadequate the stimuli the Bretton Woods institutions apply in the event of a global slowdown are. Past international downturns emanated from the Atlantic and its industrial countries, and spread to the rest of the world. A Chinese slowdown will affect its own neighbours and clients above all. There was virtually no foreign aid before the Great Depression. It has become a proliferous instrument of international influence today, as colonialism was in the older world. It has been and will be affected by the fortunes and strategies of the great powers. Specifically, Africa and South America have been the arenas of competition for influence between the US, EU and China; China's difficulties cannot leave their client nations untouched.



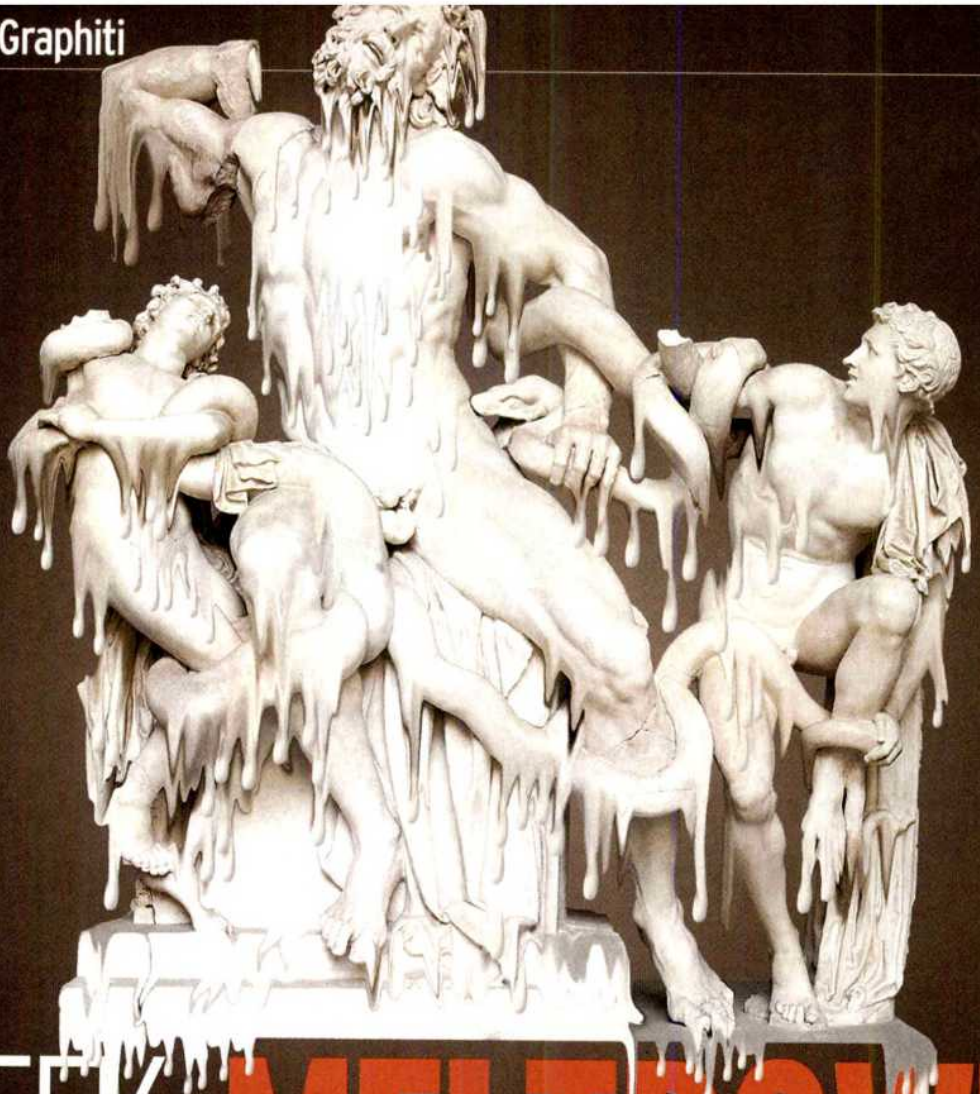
Taking stock: Are we about to see a Grand Crash, courtesy China?

REUTERS

China's resurrection had a strong impact on India. As China emerged as an industrial powerhouse, so did India as a net importer of industrial goods. In fact, the pattern of trade between the two replicated the old pattern between industrial and "developing" nations. China became a major investor in other developing countries, while India's foreign investment remains modest.

India's international economic performance has been poor, and not just vis-a-vis China; China's declining prowess will not necessarily improve India's overall economic performance. India's unimpressive performance in world trade and investment is due to misguided policies. Its correction requires that the policies be rethought and redesigned. In particular, Indian governments' penchant for pockets of protection within the country creates weaklings in competition. Its overall competitiveness can be improved only if the government takes a fairer stance towards competition.

Last year's election weakened one major factor that held India back, namely the inefficient, ineffectual policies of income redistribution embodied in Mahatma Gandhi National Rural Employment Guarantee Programme and the public foodgrain distribution. A further step still waits to be taken, namely greater neutrality of the government towards productive sectors and firms. China's government is only nominally communist except in one respect: it keeps away from private enterprise. The Indian government has generally been too close to the private sector, and has had favourites, such as business houses or the small scale sector. It will have to abandon this partisanship and force industry to stand on its own feet if it wants to make India a great industrial nation. ◆



THE GREEK MELTDOWN

Greece is tottering on the brink. However, as these pages went to press, reports of Greece making conciliatory moves through proposals similar to what its referendum had rejected, brought fresh hope. Hard negotiations will follow for sure. Meanwhile, here is an account of how things panned out

Graphic by: **Anand Sinha** Research by: **Niti Kiran**

OW THE CRISIS NFOLDED

2004
Greece confesses to misreporting of its financial data

2009
Fitch downgrades Greece's credit rating to **'BBB+'** from 'A-'

2010
The Greek government approves a tough austerity package, gets financial aid package of around **$146 billion** from IMF and European member states

2011
Private owners of Greek bonds accept a **50%** write-down on their investments

2014
Greece returns to the bond market after a four-year exile

Source: IMF, RBI

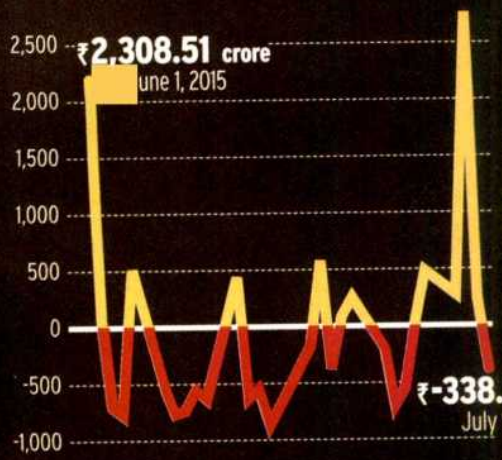
1 Greece, Zimbabwe, Somalia and Sudan have defaulted on payment of arrears to the IMF in the recent past

July 6, 2015
Greeks vote against fresh austerity measures in a referendum

June 30, 2015
The country misses its deadline for payment to the IMF

June 28, 2015
Greece orders closure of banks for about a week

2 Global investors hit the panic button. Indian stock market saw a capital outflow of over ₹3,000 crore in June



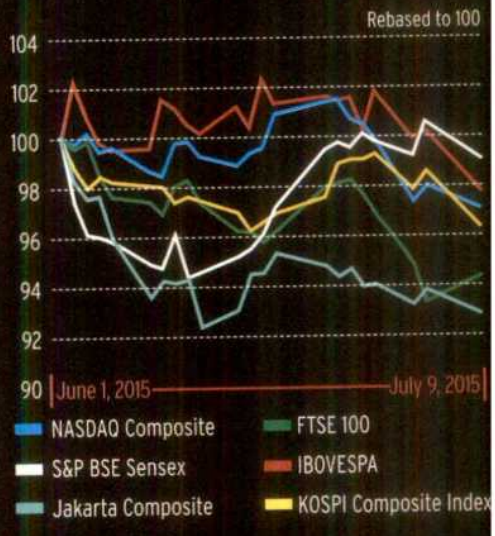
June 27, 2015
The Prime Minister calls a referendum on the cash-for-reforms proposal

June 4, 2015
The country delays a key debt payment to the IMF

Jan. 2015
Greek Prime Minister vows to end the tough austerity measures

Feb. 2015
Greece secures a four-month extension of its financial rescue package

3 The fear is back in the financial markets. Stocks remained highly volatile across the globe



4 India does little trade with Greece. However, if the European Union (EU) is hit, which contributes a significant share to our exports, it could be a cause for concern

WHAT'S TRENDING

Hitting a Crescendo

With Apple's resounding relaunch in the music space, the tempo has changed for streaming services.

By **CHITRA NARAYANAN**

RAJ VERMA

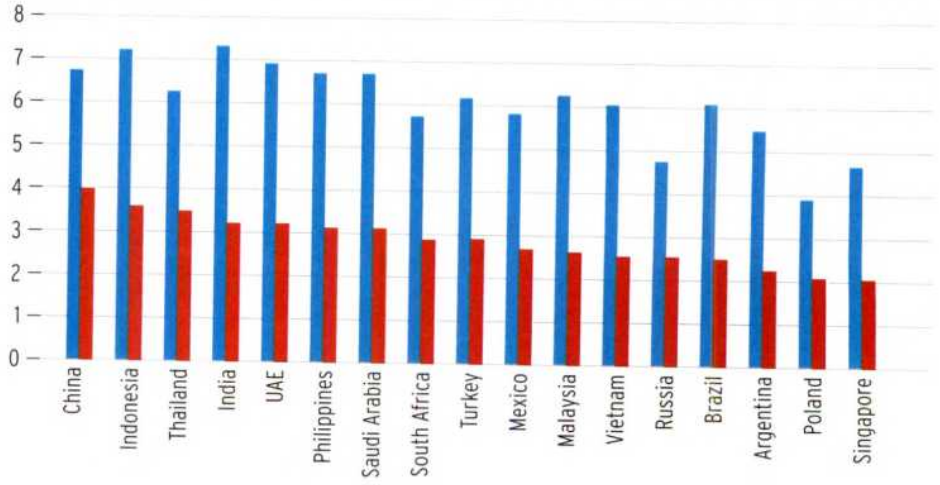
In 2003, Apple's iPod changed the way the world listened to music. Now the company is trying to stir a second musical revolution through Apple Music, which officially sounded off on June 30 with a free three-month trial. The new launch has already made Google change its beats. Just a few days before its launch, the search giant hastily added a free tier to its subscription-based Google Play Music app in the US.

Already reports are filtering in of users ditching Spotify and SoundCloud to try out Apple Music. Will it be able

DIGITAL DASHBOARD

Multi-networking Is the New Wave

Indonesia and India lead the pack, with those in the 16 to 64 year age group having more than seven social media accounts on average. China is on top when it comes to actively using them (four on average)



to cause a mass scale migration? According to Jason Mander, Head of Trends at British consumer research firm Global Web Index, Spotify is the global leader in terms of monthly users, though in APAC, and in markets like India, SoundCloud is ahead. (Spotify isn't present in India).

So, Apple Music has to offer something beyond mere novelty value to surge ahead of the two. One big advantage for it is that with just a small software update (upgrading to iOS 8.4), Apple device users (iPhone, iPad, Mac) and even iTunes supported Windows PCs can access Apple Music. What's more, initially launched in iOS, Apple has promised an Android version shortly, which will strike a chord with Indian listeners.

Its rivals Spotify, Rdio (which acquired Dhingana and entered India), Google Play (acquired Songza last year) and SoundCloud, and our desi musical offerings ranging from Gaana, Saavn to Hungama have to work extra hard now. Apple Music launches with the advantage of the iTunes library. On the content front, it has sewn deals with most music labels, and has announced more than 30 million songs. In India, apart from T-Series, most other big music labels appear to be on offer.

Significantly, Saavn has just received a $100 million Series C funding from Tiger Global, among others. It has now announced plans to scale up its service and also expand into video.

Looking at the initial user reviews and feedback, Apple Music's attempts at being the be all and end all of music is hitting the right note. A big plus for Apple is that it is offering not just music streaming alone, but personalises your collection (its For You feature which has soundtracks that you like is a big hit), offers live radio, has smart curation (by a human, mind you, and not an algorithm), and incorporates social sharing elements as well.

The weakest link appears to be its social element. Unlike other music streaming services, where users can follow people they know, Apple, through its Connect, has chosen to focus on users engaging with artistes, watching how they craft lyrics, see the backstage action, etc. This could end up just being a promotional platform for artistes, who incidentally are on other platforms like Twitter and Tidal as well. But with Apple Music's launch, the battle for listeners' ears is only going to get higher pitched. Stay tuned! ◆

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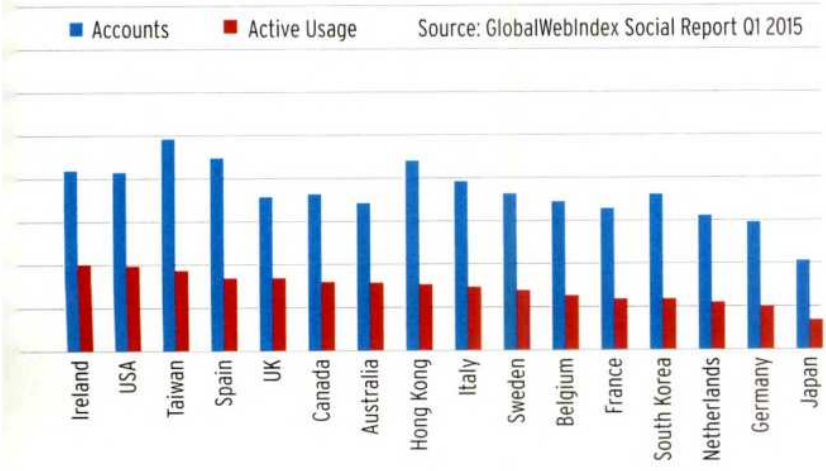

LISTENING POST

Viral Outbursts

Sensing opportunity in the discomfort that some people feel on Facebook or its lack of reach, two diametrically opposite social media networks have just been launched. Unhappy with the inappropriate content that is freely shared on FB often, a group of evangelical Christians in Brazil have launched a new network called Facegloria on which, they promise, you will never see posts or pictures that contain bad language or sexual references. Just a week into its launch, more than 100,000 people have signed up.

Another new network that has notched up over 100,000 users in next to no time is Plag (formerly Plague) – a social media app out of Lithuania that spreads content like a disease. Here, there is no need to follow anyone or be part of a closed circle. Instead, you get access to a free flow of content from a wide variety of people when you log in. If you post something, you can also see how it travels globally as Plag tells you the number of people and the location of the people you 'infect' with your post, who all spread it further and gives you the statistics of your message's views.

Birthday Balloons

One of FB's biggest hit features is the birthday reminder notification. Now, Twitter wants to edge into the birthday party game, too. If you enter your date of birth details, Twitter will shower your timeline with animated balloons on your big day, and allow people to send #HBD tweets to you. Of course, there's an agenda behind it. Unlike FB, which collects personal data and is an advertiser's darling, Twitter does not really insist on real names, and so far has been a laggard in terms of ad revenues. By collecting the user's age details, it will be able to show more relevant targeted ads.

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Slipping Faith

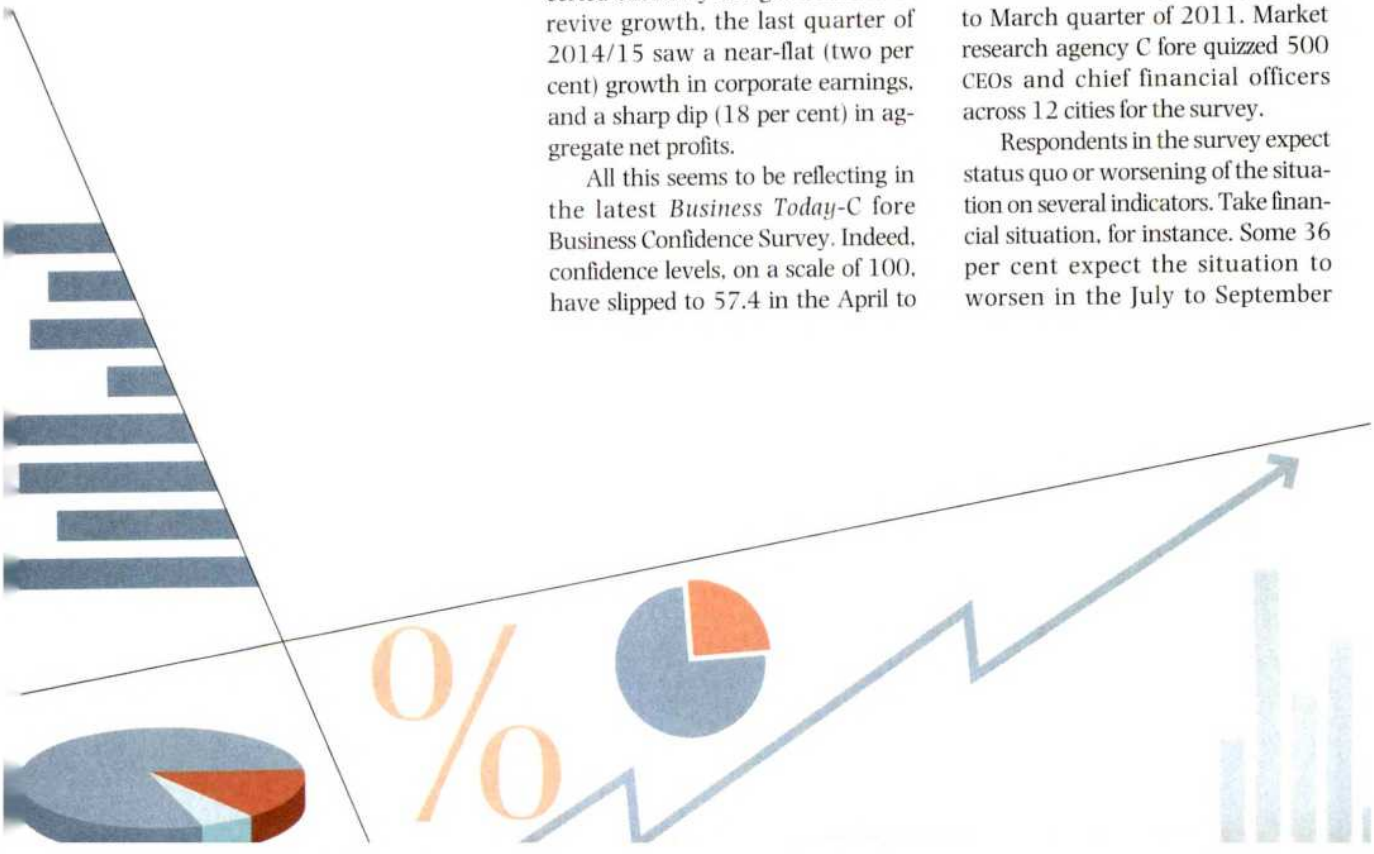
Business confidence dips for the second straight quarter despite the Modi government's efforts to give a fresh impetus to the economy, finds the latest *Business Today*-C *fore* Business Confidence Survey. By MANU KAUSHIK

It has been a rollercoaster ride for the Narendra Modi-led NDA government over the past few months. It has surpassed expectations of corporate India on some fronts – controlling inflation and reining in fiscal deficit – but has also fallen short in many areas. The ultimate test for any government's economic prowess lies in its ability to boost the performance of the private sector. Despite some concerted efforts by the government to revive growth, the last quarter of 2014/15 saw a near-flat (two per cent) growth in corporate earnings, and a sharp dip (18 per cent) in aggregate net profits.

All this seems to be reflecting in the latest *Business Today*-C fore Business Confidence Survey. Indeed, confidence levels, on a scale of 100, have slipped to 57.4 in the April to June quarter, down from 60.4 in the previous January to March period. It's the second consecutive quarterly decline in business confidence.

Business confidence index has seen a sharp upswing followed by a slump in the past 18 months. It had started improving in the January to March quarter of 2014, just before the general election, and reached its third-highest value (62.2) since the launch of the survey in the January to March quarter of 2011. Market research agency C fore quizzed 500 CEOs and chief financial officers across 12 cities for the survey.

Respondents in the survey expect status quo or worsening of the situation on several indicators. Take financial situation, for instance. Some 36 per cent expect the situation to worsen in the July to September



TAKING A TUMBLE

Business sentiment continues to slide

quarter. The corresponding figure in the last survey was 33 per cent. Similarly, more respondents (33 per cent) are concerned about the availability of finance in the current quarter as compared with the last survey (22 per cent).

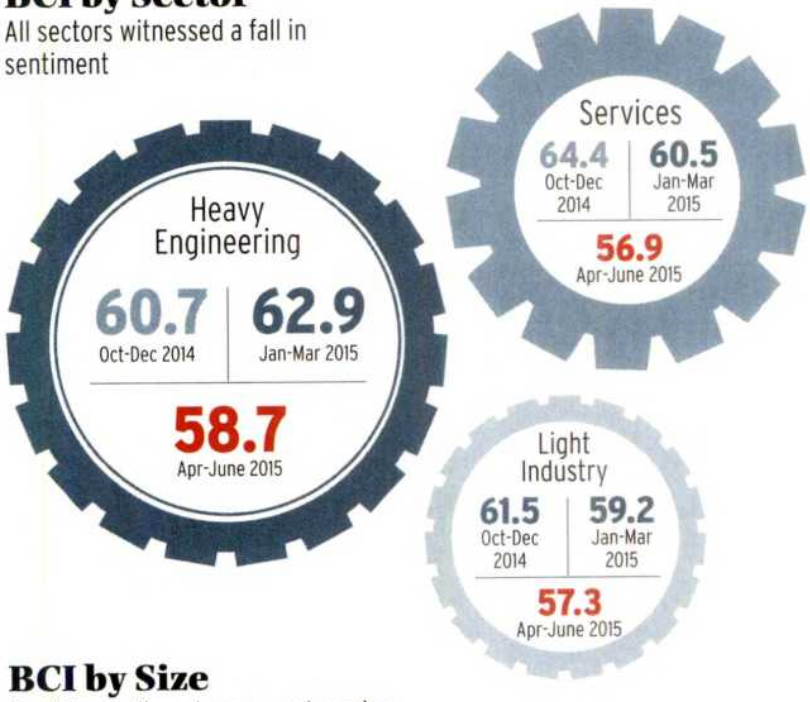
Ajay Seth, Chief Financial Officer of automaker Maruti Suzuki, says that NPAs (bad loans) in the banking system have gone up so sharply that lenders have become cautious. "Banks are likely to lend to companies with good credit ratings."

According to the survey, exports growth is another area where most respondents are pessimistic. Some 51 per cent are expecting a drop in exports in the July to September quarter compared with 46 per cent in the previous survey. In April, exports contracted by 14 per cent over the previous year. It was the fifth consecutive monthly drop in exports. "It is a reflection of weak international and domestic demand conditions," says D.K. Joshi, Chief Economist at ratings agency CRISIL.

A May 2015 report by CRISIL had pointed out that low demand, not policy, is the biggest problem for corporate India at the moment. "The investment cycle [is] unlikely to restart soon and growth recovery will be a slow process," the report said.

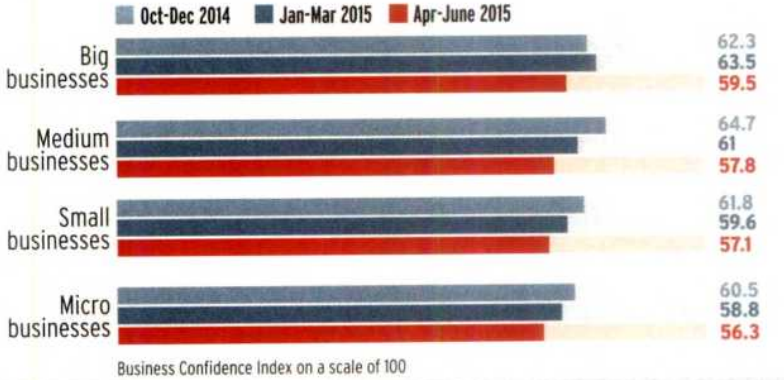
BCI by Sector

All sectors witnessed a fall in sentiment



BCI by Size

Confidence dipped across categories



Business Confidence Index on a scale of 100

Big businesses: Turnover > ₹500 crore
Medium businesses: Turnover ₹100-500 crore
Small businesses: Turnover ₹5-100 crore
Micro businesses: Turnover < ₹5 crore

"There is a growing realisation that the government has no magic bullet"

D.K. JOSHI
Chief Economist, CRISIL

Joshi says that since private sector investment is not picking up, the government is trying to "frontload" its expenditure budget and that could help boost demand. Some 9.1 per cent of the total annual expenditure was done in April alone. "There's a realisation that there's no magic bullet with the government. The recovery cannot happen with fiscal policy or interest rate cuts," says Joshi.

More respondents (30 per cent) expect selling prices to get affected in the current quarter as compared with the previous survey. Also, a higher number of respondents (32 per cent) expect their profits to shrink in the same period.

In the current survey, only 26 per cent respondents have shown their willingness to make fresh investments in 2015. More than one-third respondents (35 per cent) had expressed their interest in making investments in 2015/16 in the previous quarter. Experts point out that this is possibly linked to under utilisation of installed capacity and lower consumption. "Corporates are still in a wait-and-watch mode. The overall demand is better than last year but the cycle has to turn," says Seth.

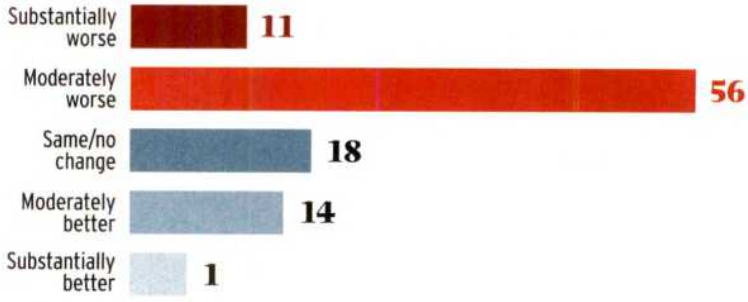
Corporate leaders are hopeful that the situation will improve in some areas. For example, 93 per cent of the respondents feel that the cost of external finance will improve or

THUMBS DOWN

Business environment deteriorated on key parameters in the April-June quarter

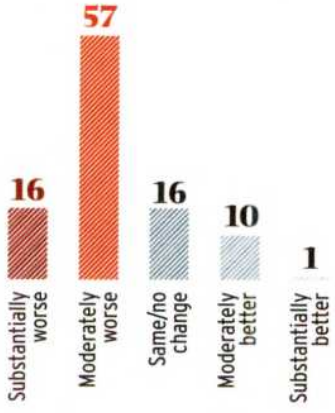
Overall Economic Conditions

A majority felt that conditions had worsened



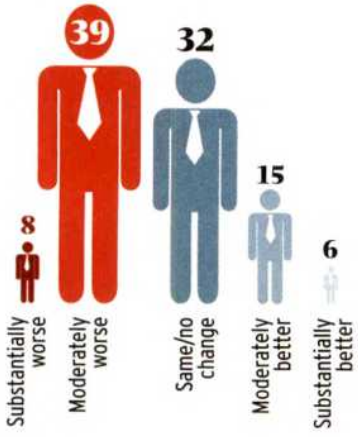
Demand Conditions

More than two-thirds felt that the situation had deteriorated



Hiring Conditions

Almost half said that conditions worsened



GLOOMY OUTLOOK

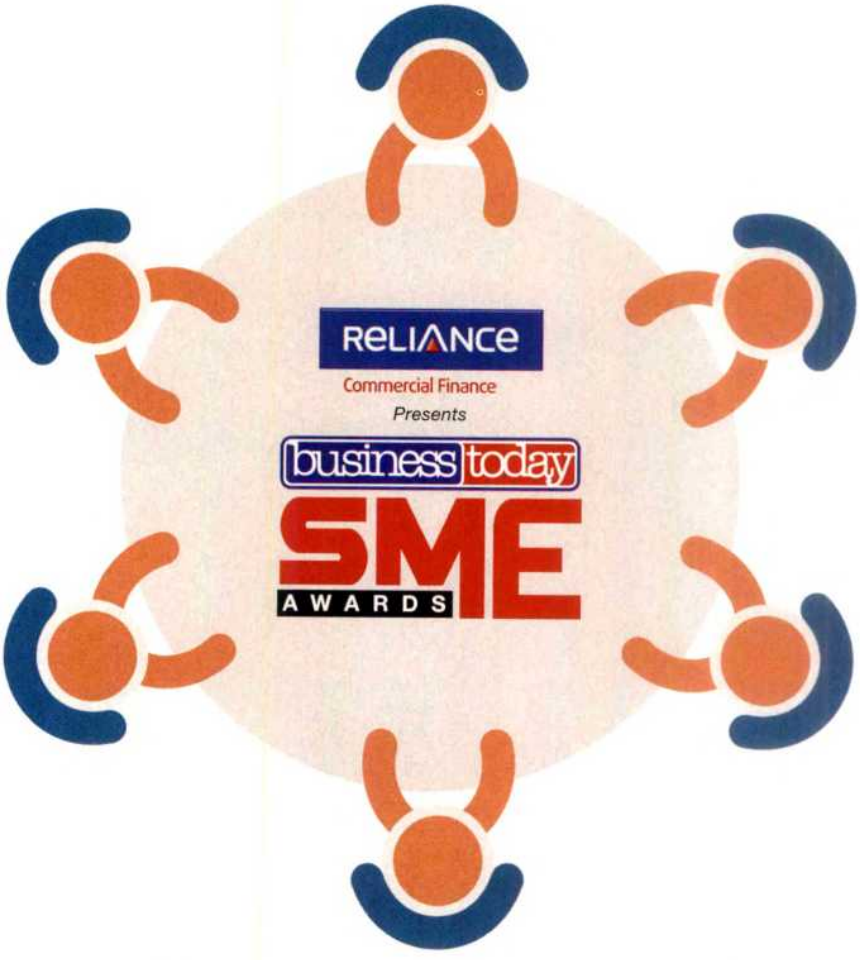
Companies don't expect things to improve in the July-September quarter

Overall Economic Situation

Only about a quarter expect the outlook to improve

Figures indicate percentage of respondents

Participate in a new era of change in the SME sector



As a precursor to the Business Today SME Awards, we invite you to be a part of the round table panel discussions being held in Bangalore. It's your chance to share opinions and views with eminent speakers, opinion leaders & policy makers who will feature as our panellists. The discussions will pertain to challenges faced by SMEs and means to best overcome them. Be there, to be a part of the change!

Panellists:
Vivek Kulkarni, Brickwork India
Bharat Goenka, Tally Solutions

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"Corporates are in a wait-and-watch mode. Overall demand is better than last year but the whole cycle has to turn"

AJAY SETH
Chief Financial Officer, Maruti Suzuki

remain same in the July to September quarter. In the April to June period, the figure was 88 per cent.

Also, they expect more interest rate cuts going forward. In June, a report by Citigroup said that key interest rate is likely to be reduced by another 25 basis points this fiscal with retail inflation under control.

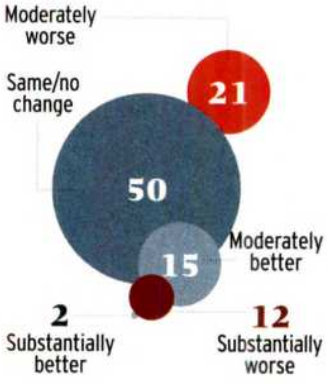
However, the last three repo rate cuts by the Reserve Bank of India (RBI) have not translated into lower lending rates for end users, both retail and corporate. Banks have resisted paring rates significantly.

The successive fall in confidence levels is a cause for concern. It should prompt the government to move faster on various fronts and make up for lost time. ◆

@manukaushik

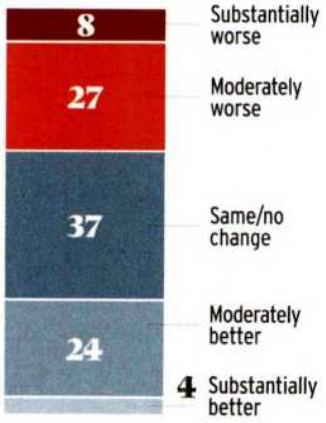
Availability of Finance

Half see no change



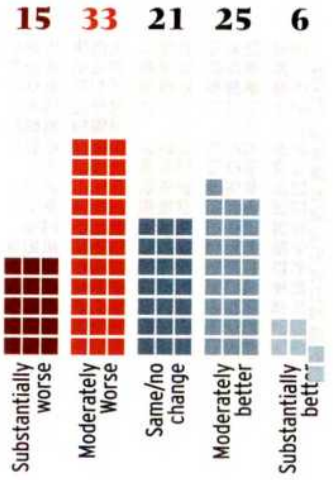
Sales Pick-up

A third expects a deterioration



Hiring

Half expect the situation to deteriorate

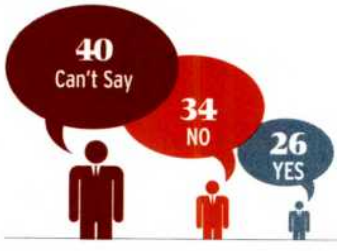


Interest Rate Cuts

Two-thirds expect more cuts

Investments

A quarter will make fresh investments in 2015



Figures indicate percentage of respondents

METHODOLOGY

Market research agency C fore designed and conducted the survey, which was conducted between June 30 to July 3, 2015. A structured questionnaire was administered to CEOs or CFOs of companies. In all 500 CEOs or CFOs representing various industries in terms of sector and size were interviewed. The survey was conducted in 12 cities – namely Delhi, Mumbai, Chennai, Hyderabad, Bangalore, Kolkata, Chandigarh, Lucknow, Nagpur, Kochi, Vizag and Bhubaneswar. The companies were segmented based on their turnover and also the products offered by them. Those with turnover of over ₹500 crore have been termed as big, those between ₹100 crore and ₹500 crore as medium, those with a turnover of less than ₹100 crore as small and those less than ₹5 crore as microbusinesses.

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DARKNESS AT NOON

The Marans' business empire is under siege. Will they be able to save it?

By VENKATESHA BABU

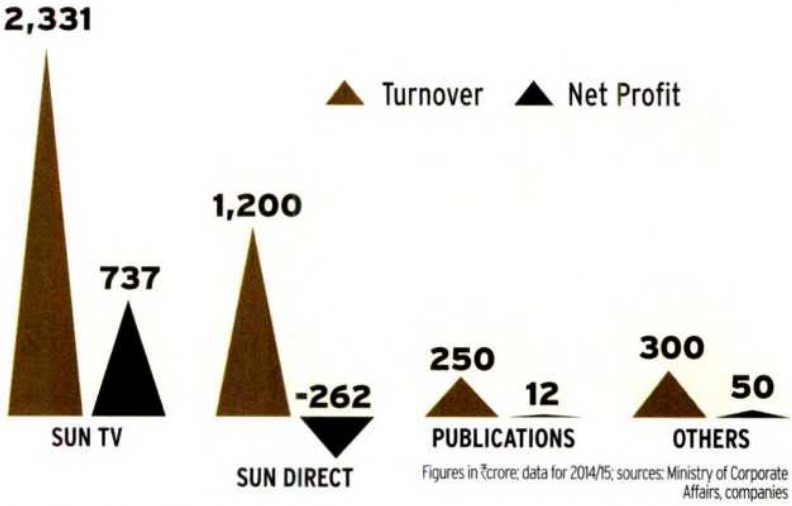
The MM Towers in the tony neighbourhood of MRC Nagar in Chennai hosts one of India's most powerful media companies. With its high walls, omnipresent security personnel and cameras watching the entry and exit of every individual, the headquarters of the Sun Group looks like a fortress being defended from an attack.

The threat, though, is not from competitors but from the country's current political alignments. At its peak, the group was a ₹10,000-crore giant that dominated media business in South India with its TV channels and cable/DTH business. With its 48 FM channels across the country, two daily newspapers, five magazines, an IPL franchise (SunRisers Hyderabad) and the airline, SpiceJet, it was one of the fastest-growing business groups south of the Vindhyas. However, it started losing out when DMK patriarch K. Karunanidhi – the grand uncle of owner Kalanithi Maran – was defeated in the 2011 state elections. Then, in 2014, the UPA, of which the DMK was a key member, was defeated, further eroding the group's influence.

Kalanithi Maran:
Facing A Cloudburst

The empire, built over the past two-and-a-half decades, is now beginning to crumble. First, lack of support from state-run lenders forced Maran to sell the struggling SpiceJet to Ajay Singh, who is credited with the BJP's *Achhe Din* pitch in the 2014 elections. In fact, Singh had earlier sold SpiceJet to Maran in 2010. This pulled down the group's turnover from ₹10,000 crore to ₹4,000 crore. Now, Sun TV, the ₹2,331-crore TV business, is also being threatened. In the first week of June, there were reports that the Ministry of Home Affairs (MHA) had recommended to the Ministry of Information & Broadcasting that TV licences of the Sun Group be revoked due to "economic security interests". The threat, if carried out, will hit Maran where it hurts the most, for Sun TV is one of India's most profitable media entities and the group's cash cow. In all five southern states, except Kerala, Sun TV Network channels – Sun TV, Udaya TV, Gemini TV – are market leaders in the general entertainment category. The MHA has also denied security clearance to FM channels owned by the group. The Centre had also withdrawn the Multi System Operator licence to Kal Cables, owned by the Maran family, though the company has got relief on this from the Madras High Court. The assaults, including the earlier Enforcement Directorate notices for attaching more than ₹750 crore assets owned by him and his brother, have the potential to cripple Sun's empire.

FIGURING IT OUT: Television remains the cash cow



Figures in ₹crore; data for 2014/15; sources: Ministry of Corporate Affairs, companies

NOTE 1: Except for Sun TV, the other group entities are not listed

NOTE 2: Other businesses include distribution, import-export, a call centre and other ancillary services

Major Cases Against the Maran Brothers

1. The CBI has accused them of receiving hundreds of crores for help in takeover of Aircel by Maxis
2. The brothers are accused of installing a BSNL exchange at their house during Dayanidhi Maran's stint as telecom minister and using it to benefit the Sun Group
3. A money laundering case has been filed by the Enforcement Directorate
4. Dayanidhi is an accused in the 2G spectrum allocation case

At a personal level, the Central Bureau of Investigation (CBI) is already probing Kalanithi Maran and his brother, former Union minister Dayanidhi Maran, in a number of cases, including illegal use of a BSNL exchange installed at their residence. Dayanidhi has also been charged in the 2G spectrum allocation case.

The Undeclared War

The Group Chief Financial Officer (CFO) of the Sun Group, S.L. Narayanan, says he was shocked when he heard about the latest MHA move and rushed to Delhi to meet officials and understand their concerns. "Nobody in this government wants to meet us. This has never been the case. In the past they might not have agreed with you but they would meet you," says Narayanan.

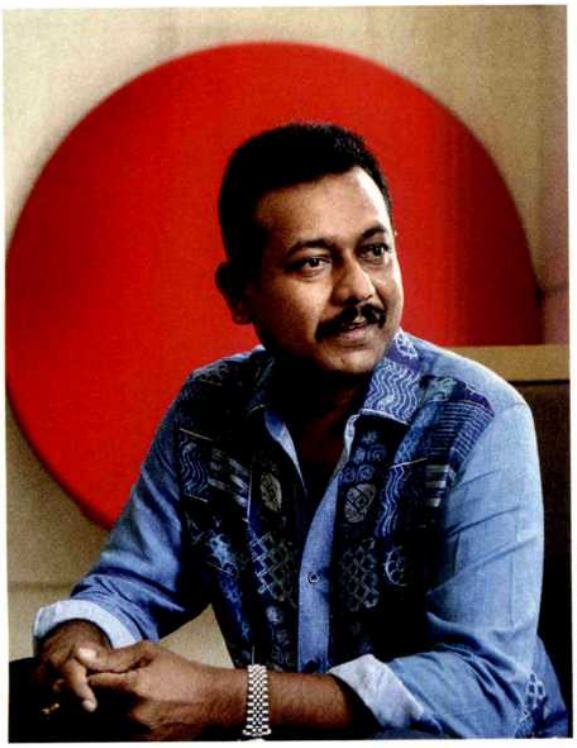
The issues Sun TV is facing are unique. This is because its fortunes are intertwined with the political associations of the promoter family. Therefore, it is important to look at these linkages and Kalanithi's early days to understand the challenges it is facing.

Early Days

Hansraj Saxena, a college mate of Kalanithi at Chennai's Loyola College who later worked in a senior position at the Sun Group, remembers him as an above average student. Saxena had campaigned for Kalanithi when he ran for and won the presidentship of the students' union. It helped that he came from a pre-eminent political family. For Kalanithi's grandmother, Shanmuga Sundari, had brought up not only her son, Murasoli Maran, but also her brother, M. Karunanidhi. While Karunanidhi was known as Kalaignar (artist), Kalanithi's father was a man of letters, running the party newspaper, *Murasoli*.

By the time Kalanithi graduated with a commerce

Interview with S.L. Narayanan at
businesstoday.in/sun-narayanan



NILOTPAL BARUAH

"Kalanithi is hardworking and prefers to keep a low profile"

HANSRAJ SAXENA, Former Deputy COO, Sun Pictures

degree and went to do MBA from the University of Scranton in the US, his grand uncle had been the chief minister of Tamil Nadu for a few terms. The father, too, was a Member of Parliament. The family also ran a few publications under Sumangali Publications.

After returning from the US in 1988, for two years, Kalanithi learnt the ropes of the media business and ran Poomalai, a video magazine on the lines of Newstrack, before deciding to enter the television business. He launched Sun TV in 1993.

TV Takes Off

Kalanithi realised early on in his TV career that original programming was expensive. So, Sun TV bought TV rights for a large number of regional movies. Also, while others commissioned programmes, telecast them and earned from advertising, he turned the model upside down. Anyone could buy a slot on Sun TV and telecast content by paying a fee. This meant Sun did not have to hire people for programming and selling advertising time. "This looks like a no-brainer. However, Kalanithi pioneered it in India. He converted his weakness, lack of 'formal' capital, into strength," says a former employee of Sun TV who did not wish to be identified.

Getting a transponder and programming is only the first step in the business. The next, setting up a distribution network, is more challenging. This is because money and muscle power rule the roost here. It is where the DMK and family links came in handy. With the patronage Kalanithi received from the DMK's first family, Sun was able to quickly roll out Sumangali Cable Vision (SCV) across the state. At the time it operated from Anna Arivalyam, the DMK headquarters in central Chennai, and shared the party's logo of rising sun for its channels.

Did Kalanithi succeed just because of his political links? A former associate who studied with him and did not want to be identified says if he was riding merely on the DMK's coat-tails, his success would have been restricted to Tamil Nadu. "He expanded all over south, buying channels in Telugu and Malayalam, offering a single platform for advertisers. He bought rights for most film libraries in the south before most people realised their value," he says.

However, the managing director of a major competitor says Sun's success was mainly due to two reasons. First, the near monopoly in distribution through SCV initially and backing from the DMK. Second, the ruthless manner in which competitors were stifled. There have been reports of Sun using its distribution network to kill competition. For instance, if it felt that a channel was becoming a competition, it would lose audio when beamed into homes. Also, the cable TV operator would change the position of the channel at regular intervals. It helped that during the early phase of the company, the DMK (1996 to 2001 and 2006 to 2011) was in power in the state.

Saxena, a one-time confidant and deputy COO of Sun Pictures, who has known Kalanithi for nearly three decades, says: "He is hardworking, not a party animal and is rarely seen at public events, preferring to keep a low profile. Yes, he has a temper, but only when crossed."

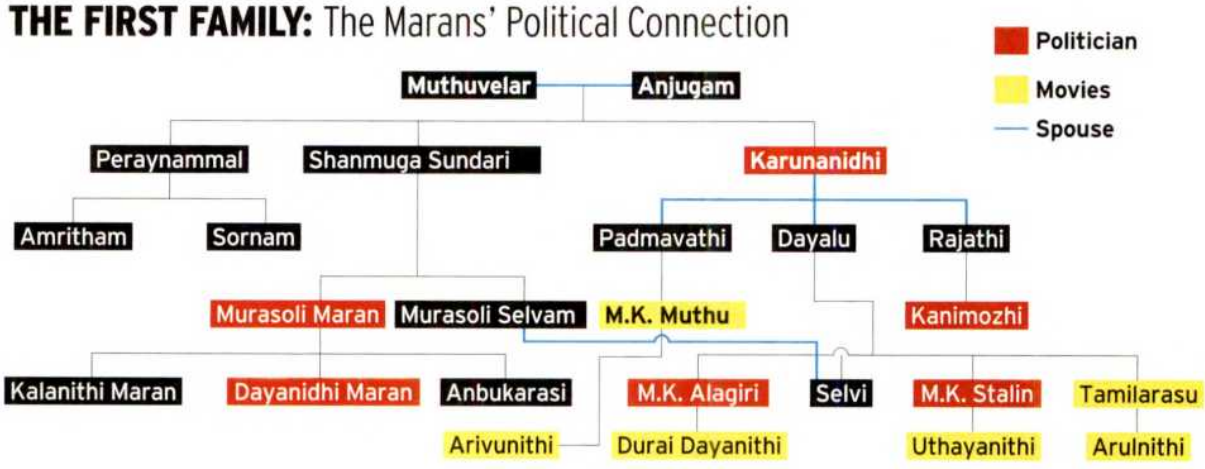
When Murasoli Maran died in 2003, Karunanidhi said that he had lost his "conscience keeper". However, the Maran brothers decided to carry forward their father's political legacy. Kalanithi would look after the family's commercial interests while Dayanidhi would look after the political interests, says a former employee.

In 2006, Sun TV decided to list and raised ₹600 crore from the market. Just when everything seemed to be going well, the group faced its first big crisis.

Second Coming

In 2007, *Dinakaran*, a newspaper owned by the Marans, published a survey promoting M.K. Stalin at the cost of his elder brother, M.K. Alagiri. This brought into the open the rift in the Karunanidhi family where a battle for succession

THE FIRST FAMILY: The Marans' Political Connection



was being fought. Karunanidhi evicted Sun TV from the party headquarters. Even Dayanidhi had to quit as Union telecom minister. Some of Karunanidhi's children also felt that the grand nephews had short-changed their grand uncle by buying their stake in Sun TV before the IPO for a "paltry price".

Karunanidhi also ensured that Kalaignar TV, owned by his second wife and daughter from his third wife, was launched. Karunanidhi even had his government set up a state-owned cable services provider, Arasu Cable TV Corporation, to break SCV's hold on distribution.

Sun was on the back foot. But an old relationship came to the rescue. Karunanidhi's daughter Selvi was married to Murasoli Selvam, an uncle of Kalanithi Maran. Selvam looked after Sun's operations in Karnataka and so was interested in settling the row. He ensured a patch-up. Dayanidhi rejoined the Cabinet and Arasu was rendered toothless. With the media business throwing up plenty of cash, Kalanithi made his first move outside media.

Rough Weather

The aviation sector is a tough nut to crack. So, it was a surprise when in January 2010 Kalanithi announced that he was acquiring a 37.75 per cent stake in low-cost carrier SpiceJet for ₹750 crore. He eventually took this to 75 per cent and pumped in more than ₹1,500 crore.

A senior executive of the Sun Group who claims to have advised against the move says, "The main business was throwing up so much money that he had to invest somewhere. He chose aviation." Kalanithi seemed to have turned around the airline in a year. However, the good times did not last. Five years later, he had to sell the business to its original promoters.

The year 2011 brought a second wave of troubles for the brothers. Dayanidhi, now the Union textiles minister, had to resign after the CBI implicated him in the 2G spectrum scam. The CBI also filed a case against the brothers after an NRI tycoon, C. Sivasankaran, accused them of forcing him to sell Aircel telecom network to Maxis of Malaysia for an illegal gratification of ₹700 crore. The CBI chargesheet said the money was routed as a share premium for investment in Sun Direct, the DTH arm of the Sun Group. Narayanan, the Group CFO, offers a detailed defence on behalf of the Marans (see interview).

Dayanidhi was also accused of running a telecom exchange at the house he shared with his brother which provided high-speed connectivity to Sun Network, causing losses to BSNL. The brothers deny the charges.

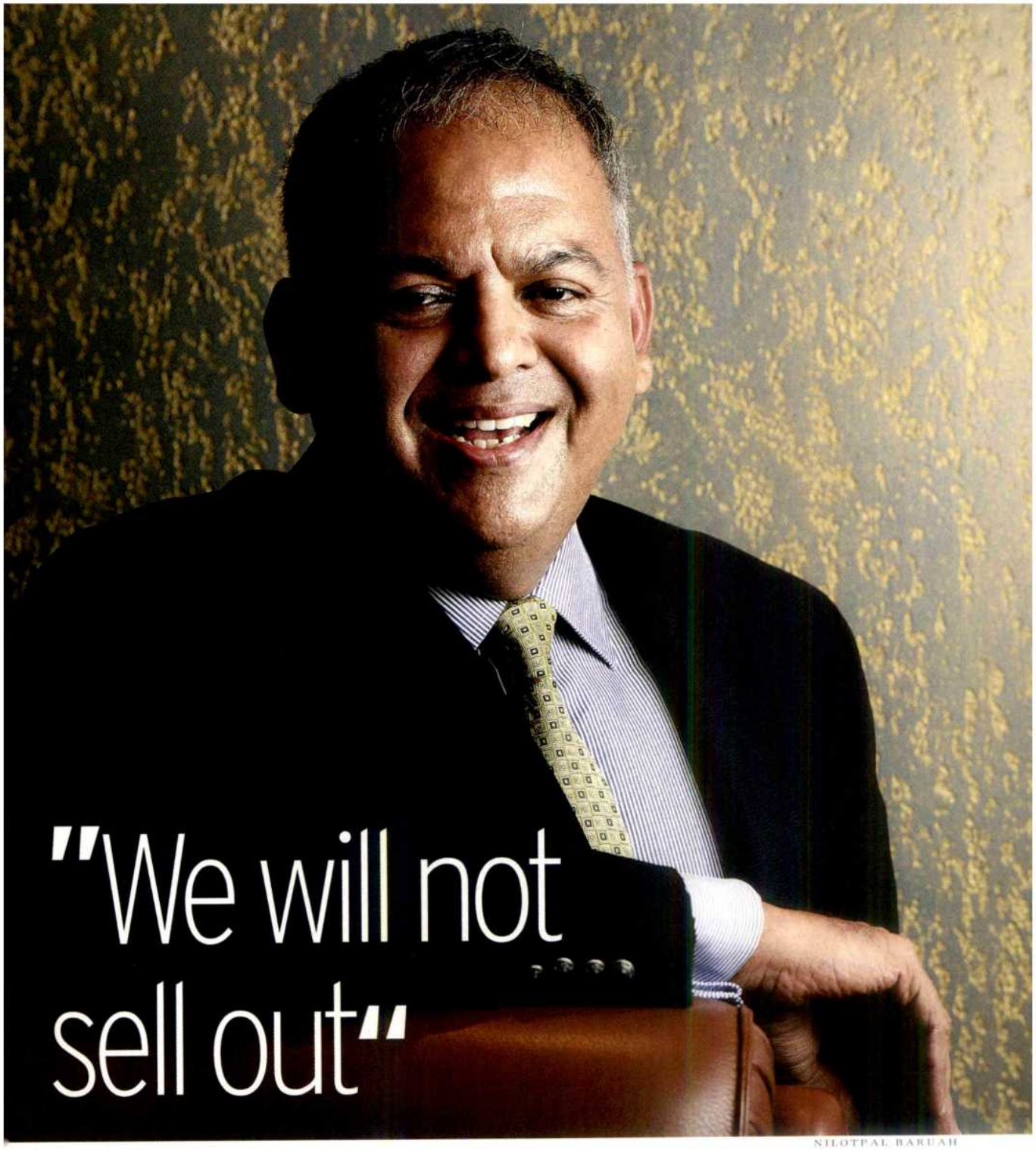
The MHA is believed to have used the above instances and Kalanithi's sympathies for the LTTE during his student days to argue for the ban. Narayanan, however, contends that these are just allegations and so cannot be used to revoke Sun's licences.

With the DMK having no seat in the Lok Sabha and just four in the Rajya Sabha, the party is not in a position to help much. Also, with the BJP, which rules at the Centre, aligned with J. Jayalalithaa, its main rival, the pressure is unlikely to abate. But Narayanan says Sun will fight back. He says unlike SpiceJet, which was an acquisition, Kalanithi will never become a minority shareholder and there is no question of selling the network. However, the unfavourable political environment has meant that Sun has to supply its channels to Arasu after a year-long negotiation at a "substantial haircut", says Narayanan.

"With state elections due in six months, if the DMK comes back to power, it will help them, otherwise things look tough. But Kalanithi will not give up without a fight. Those who live by the sword...", says the managing director of a competitor.

Kalanithi, though, is believed to be preparing for all eventualities. His wife Kavery is more actively involved in running the company even as his 22-year-old daughter, Kaviya, is getting trained at Sun Music.

For the Marans, the political game is likely to decide Sun TV's fate. For Kalanithi, this means a fight to the finish.



"We will not sell out"

NILOTPAL BARUAH

Subramanyam Lakshmi Narayanan, the Group CFO, is the suave and articulate voice of the Sun Group, a good counterpoint to the media-shy Kalanithi Maran. SL, as he is called within the Group, talks to **Venkatesha Babu** *about why they will not give in to the pressure and sell out the TV business.*

How did things come to such a pass that the very existence of the group might be threatened?

We have been completely taken aback by the events. We weren't even sure whether we wanted to be vocal on this, but we did as it spooked us. I had to go on television to say that this is patently unreasonable. These licences have been renewed for the next 10 years. They are maturing only starting 2021. So, when news came that the licences are being revoked because Mr Maran is being

investigated for some crimes. I called it an Armageddon on us.

What was the genesis of this issue?

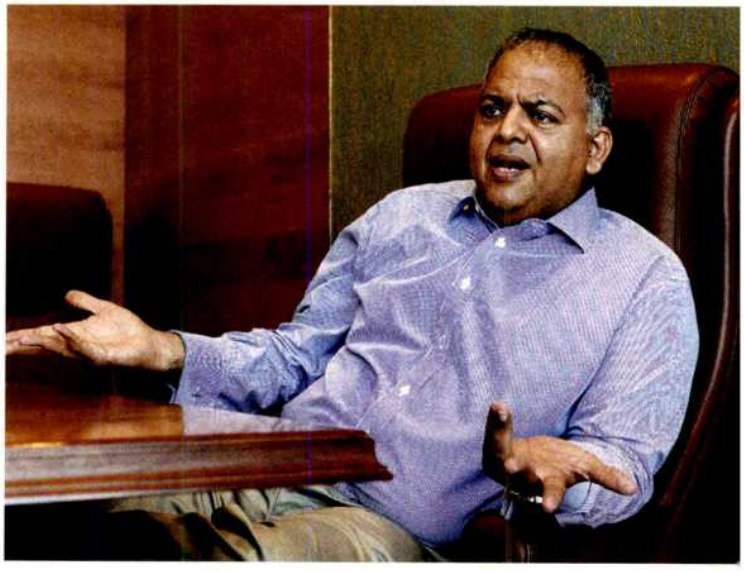
Look, these licences are issued for 10 years. When time came for renewal of various channels in 2011, 2012 and 2013, they were renewed. So, I don't know (what the problem is). I have a more fundamental issue. Where is the need for the government to issue licences to the media? This is big government in its most horrible form. This is the kind of behaviour which makes India rank with Lesotho and Yemen in ease of doing business. This is a huge discretionary power vested with the executive which may or may not be exercised with reasonableness. This was relevant when satellite TV was new. I remember there were pitched battles in Parliament when the foreign investment limit in the sector was increased from 26 per cent to 49 per cent. All kinds of things were said, that foreigners will take over TV networks, espionage will be easy, etc. Today, 100 per cent foreign direct investment (FDI) is allowed in telecom. India is not a banana republic and if some subversive activity is being perpetrated, it can shut anybody overnight.

What communication have you got from the home ministry and/or information & broadcasting ministry?

This is what is surprising. Till date we have not received a scrap of paper from any ministry. The whole thing (about possible revocation of licences) we have read only in the press. No e-mail, no communication, verbal or written. I camped in New Delhi for three days asking for a meeting with Nripendra Misra (the Principal Secretary to Prime Minister Narendra Modi). Nobody in this government wants to meet us. This has never been the case. In the past they might not agree with you but they would meet you. For the first time, no senior person wants to meet. This is ridiculous.

On a single day, 26 per cent market-cap of your listed entity was wiped out. What has been the reaction of investors, analysts, partners, employees and other stakeholders?

One of the biggest bulge-bracket FIIs (foreign institutional investor) told me, "I am not a lawyer, but in the civilised world, you are presumed innocent until you are pronounced guilty. What law allows them to shut you down when there is an allegation pending?" Sun Direct is being investigated for this investment it got. They say it is a bribe masked as FDI. That matter is sub judice. We have shown to the CBI (Central Bureau of Investigation) that the price that Sun Direct got is not unreasonable. If anything, it is extremely reasonable. Let me explain. There are two publicly available valuation benchmarks for us – Dish TV's IPO in April 2007 and Temasek's investment in Tata Sky. Our premium valuation is far lower than that. More important, the money from Astro has been wholly and fully deployed into the (Sun Direct) business. We have tendered evidence running into tens of thousands of pages on what we did with the money. Bulk of it has gone towards purchase of set-top boxes and payment of customs duty on them. Against that investment, Astro has been given a 20 per cent stake, which has gained in value. We just did a rights issue at ₹120 a share. Sun Direct is the most profitable DTH company in India. Our margins are better than that of Dish TV. Sun Direct has five million subscribers who pay every month. Its gross subscriber base is eight million.



NILOTPAL BARUAH

"Nobody in this government wants to meet us. This has never been the case"

The beauty of our group is that each company is firewalled from the other. For instance, when SpiceJet was bleeding, not a penny from Sun TV was used for it. Taking

money from one company and putting it into another group company is the curse of corporate India. We said we will never do it. There are no cross-holdings in the group. In Sun TV, Kalanithi owns 75 per cent, in Sun Direct 80 per cent is owned by Mr & Mrs Kalanithi Maran, in fact Kavery (Kalanithi) owns 62 per cent. So, all holdings are separate. The publications division is separate. These are all silos.

We have 33 channels, 48 radio stations, a couple of print publications, some distribution business and a call centre. SunRisers (the Hyderabad IPL team) is a subsidiary of Sun TV. So are the radio stations. We are present in all 54 million cable or satellite homes in the southern states. In south, they watch Sun, Udaya, Gemini or Surya. The group's revenues are a little over ₹4,000 crore and it employs approximately ₹5,000 people.

Do you see the actions of the Centre as political vendetta?

I would like to believe that we are not in this situation because of political reasons.

Have there been attempts at mediation with the Centre using the influence of some politically well-connected family members?

I don't want to comment on this. I am not aware of this. My job is to run this company as a professional manager.

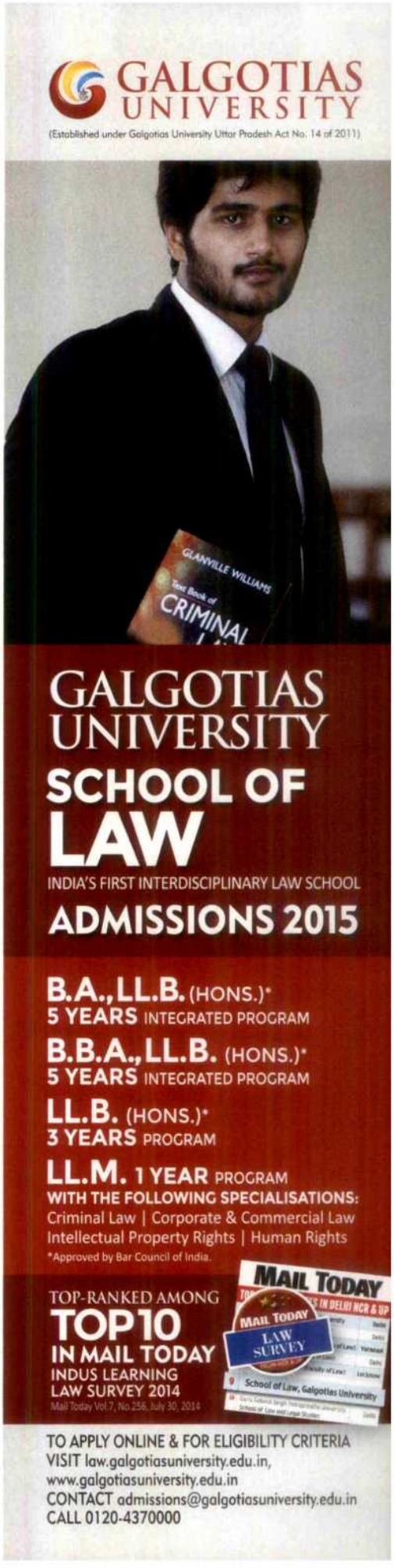
So, the Centre's apprehension and likely revocation of licences is due of security threat or economic issues?

How can we ever be a national security threat? We have been operating for 22 years and all we show is family dramas and movies. The content is nowhere seditious. Our content is not the problem. If the accusation is that if Mr Maran is guilty of some heinous (economic) crime, my answer is that it is still at an allegation stage and there is every possibility that he will be acquitted. Why should you shut us down in the interim?

Just like in the case of SpiceJet, is there a possibility of ownership change in the group?

We have no such plan. This is a great business. It is a labour of love. Kalanithi is very passionate about this business. He is very hands-on. This business is not for sale. To be very honest I also thought (the Centre's actions) were a prelude to forcing him out by making it look really disastrous, putting the fear of God in him and making him sell out. In between there was a report (that the Ambanis) were interested. I asked him. He denied it and asked me to strongly respond and issue a rebuttal. However, I saw this report about the MHA saying that if Mr Maran becomes a minority shareholder, the company will survive. It was chilling, as if somebody was sending a message. I asked him and he said there was no question of selling out. We are very clear. We will not sell out. ◆

@venkateshababu



CAN CYRUS MISTRY REINVENT TATA MOTORS?

RACHIT GOSWAMI

By NEVIN JOHN

It happened a few months after Cyrus Mistry took over the reins of the Tata Group. At the annual general meeting of Tata Motors on August 21, 2013, a gaggle of shareholders took the company management to task for the poor quality of the company's passenger vehicles (PVs). The technology used by the company appeared obsolete, they chorused. It was food for thought for the new group chairman.

There were obvious reasons for the angst of these shareholders. Most of the company's PVs were struggling to hold their own against competition in India. Take the example of Indica, considered India's first indigenously developed passenger car. Indica was never a match for vehicles from fleet-footed rivals, including Maruti and Hyundai, who constantly introduce cutting-edge technology and resort to high-voltage marketing to push sales. Some of the new offerings by Tata Motors – like Zest and Bolt – do offer the latest in technology (including diesel engines developed by Fiat) but are competing in a crowded market. As a result, Tata Motors' market share of the Indian PV industry has tumbled in the past decade, from 17 per cent to about six per cent now.

In fact, it's the iconic British brands, Jaguar and Land Rover, acquired by Ratan Tata in 2008, which are financially helping the Indian carmaker to stay afloat. The company also continues to dominate in the commercial vehicle (CV) market, with a market share of about 55 per cent, but the past two years have been tough for the segment with the economic slowdown impacting business.

Can Mistry script a turnaround story for Tata Motors? It's the PV business that requires his urgent attention. He has his task cut out and has chalked out an ambitious plan for the revival of the company. On the cards is an expansion of Tata Motors' footprint in the country by adding more dealerships. The company is intent on capturing a much larger share of the rural market where it has a small presence. Also, it will roll out a slew of new launches over the next few months. Plans are afoot to offer the latest in technology to take competition head-on.

The Game Plan

Mistry knows there are many things that need to be set right at Tata Motors. With this in mind, he hired Mayank Pareek, one of the most sought after auto industry professionals,

Sliding passenger vehicle sales, humongous debt and growing competition have dealt a body blow to Tata Motors in India. The company has chalked out an ambitious plan to get back on track. Can it stage a recovery?

Comeback Trail

Tata Motors' five biggest weaknesses and how it's trying to overcome them

Poor Product Quality

It has firmed up a strategy to achieve 'world-class manufacturing'; opened design centres in Italy and the UK

Delay in Roll-out of Products

Introduced Launch Quality Operating System to focus on practices and procedures that help adhere to the launch cycle plans and timing

Poor After-Sales Service

Launched 90-minute Express Service, introduced Logistics Management System for speedy spare parts delivery

Lacks Blockbuster Products in its Portfolio

The company plans to introduce crossover SUV Hexa and compact SUV Nexon to change the perception about its vehicles

Attrition

Cyrus Mistry is reportedly looking to hire a new CEO and CFO, and contain high attrition rates

ABHISHEK GUNARATNAM

"Our processes have changed, materials have changed and the engineering itself has changed"

MAYANK PAREEK, Head, Passenger Vehicles

as the president of the PV division. Pareek was the chief operating officer of marketing and sales at Maruti Suzuki for over 20 years and was behind the company's drive into the rural markets, launching mobile vehicle servicing units in remote regions.

Pareek's primary focus is on boosting the dealer network of Tata Motors: "India is spread over 650 districts and 5,500 tehsils. But our footprint is limited." The company has just 460 dealerships in the country even though it is one of the oldest auto companies in India. In comparison, Maruti has the largest pan-Indian service network with 3,060 outlets. Even a relatively new entrant like Nissan has 160 dealerships in the country. Pareek plans to triple the dealer network to 1,500 in the next four to five years. "We are coming out with the concept of mobile services, which is piloting in Delhi and Mumbai. We will scale it up across India once it's ready. Effective and cost-effective service is important for creating loyal customers," he says.

Rural India is another big and, as yet, untapped opportunity for Tata Motors. At least 30 to 40 per cent sales should come from the rural market, believes Pareek. Rising prosperity and infrastructure creation in India's towns and villages have created a big market for car companies, he adds.

6%

Tata Motors' current market share in the Indian passenger vehicle industry. It was 16 per cent a decade ago

But the going won't be easy as Maruti and Hyundai have stolen a march over others in the rural markets. Indian carmakers will need to raise their after sales service standards to differentiate themselves from the competition, according to Rakesh Batra, Partner and National Leader, Automotive Sector, Ernst & Young (EY). "It's time to bring fast-track service facilities, which is prevalent in the western world. Here, operations of dealer networks are below par, compared with the global standards," he says, adding that parts inventory

Interview with Mayank Pareek at
businesstoday.in/tata-pareek

management and workshop facilities need to be improved. It is an important learning for Tata Motors.

Meanwhile, for a long time, the company was selling cars to fleet customers, such as taxi operators and hotels, who have different priorities. A fleet customer looks for deals while individual car buyers focus on products and services. "So, we are improving the networking skills of employees, especially while selling cars to individuals, families and professionals," says Pareek.

Pareek and his team have been striving to raise the company's standards on all fronts including product quality, customer service and manufacturing. He appears satisfied with the outcome. In June 2015, Tata Motors' passenger business grew at a robust 12.5 per cent. The industry actually shrunk by 0.54 per cent in the same month. "We are on a growth trajectory and will continue to grow every month," he says. But not all numbers are impressive.

Potholes

Tata Motors' net profit for the fourth quarter of 2014/15 fell 56 per cent – worse than expected – and India's largest automobile company by revenue also held back dividends for the first time since 2002. While the company's consolidated revenue rose 13 per cent to ₹2.6 lakh crore in the last financial year, profit remained flat at ₹14,073 crore. In a body blow, the Indian unit made a standalone loss of ₹4,739 crore – largely a consequence of the bleeding PV business. But JLR recorded an 8.5 per cent rise in profits to £2 billion (nearly ₹20,000 crore) despite slowing demand for luxury cars in China.

Tata Motors' PV products have failed to create an impact in India and that is the primary reason for its financial woes, according to V.K. Vijayakumar, Investment Strategist, Geojit BNP Paribas Financial Services. "They thought they could piggy ride on Nano for growing the numbers in the first half of this decade. But all their efforts to revamp Nano (with models like Twist) failed to attract buyers."

A gross debt of ₹73,610 crore in 2014/15 is the other major worry for the automaker, a steep rise from ₹60,642 crore in 2013/14. This was largely because Mistry was advised to persist with capital expenditure (capex) plans for turning the wheels of fortune in the company's favour. The capex and product development spend during the last financial year was ₹37,912 crore, including £3.1 billion (around ₹31,000 crore) at JLR. Cash and bank balance (including mutual funds) stood at ₹46,174 crore.

Vijay Somaiya, Vice President and Head of Treasury and Investor Relations at Tata Motors, says the company will reduce the debt by some ₹4,000 crore by August. The automaker will use the proceeds of its ₹7,490 crore rights issue to retire debt. "The rights issue proceeds are in fixed deposits. We will redeem the deposits when debt maturity comes up," he says. The Indian unit is also going for product development in a big way.

Vinayak S. Bapat, President and CEO, VXL Consulting believes that the bill for the JLR acquisition – the company paid $2.3 billion to Ford Motor Co in 2008 for the British brands – still hurts the Indian busi-

Horizonext

Tata Motors' new strategy

Intense Product Focus
The company plans a bevy of launches for the global market. There are a slew of new products in the pipeline

World-class Manufacturing
The company is focusing on quality to take on competition. It claims that rigorous quality assurance processes, based on global best practices, have been initiated

Changing Priorities
With the launch of its compact sedan Zest and premium hatchback Bolt, Tata Motors took a strategic decision that new passenger vehicle products will only target the personal segment. The company will open 1,500 outlets, adding 200 this year alone, to boost market share

Improving Service Standards
All customer-related concerns need to be resolved at the dealer level within 24 hours of the complaint being filed. If any issue remains unresolved, the management will directly look into the matter

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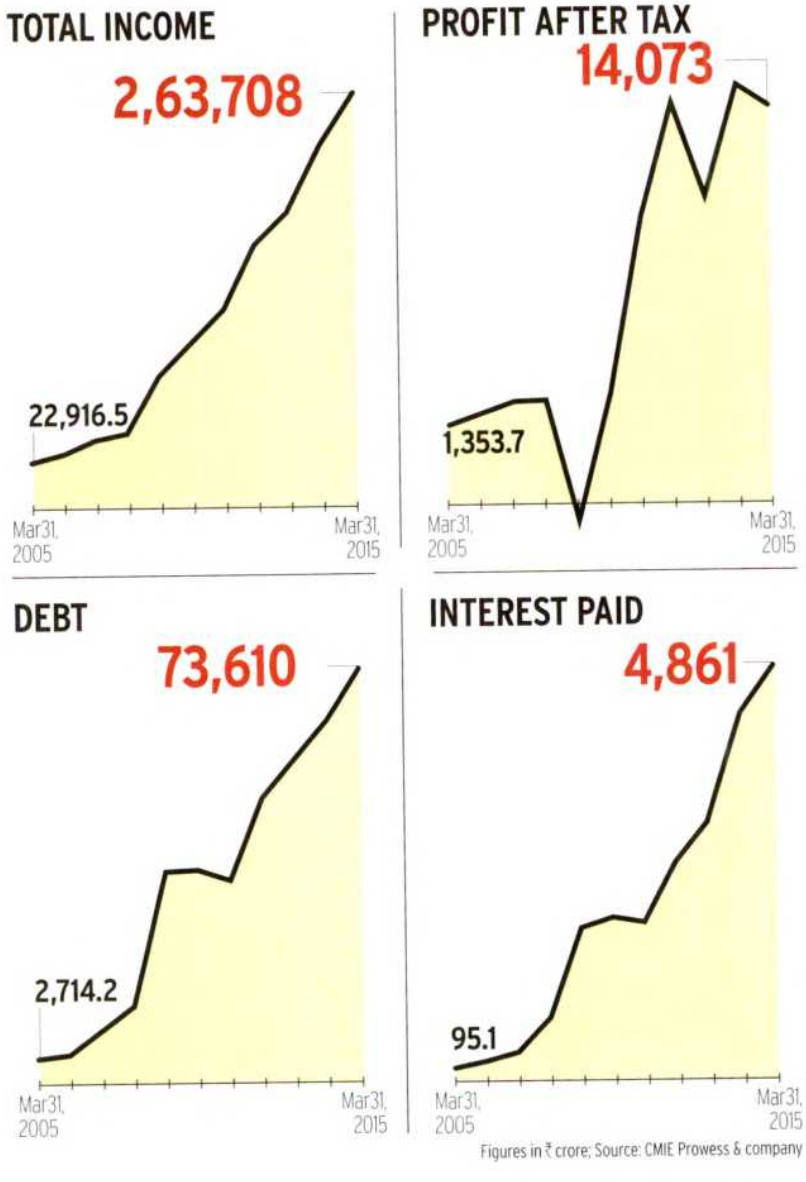
Steep Climb

An overview of Tata Motors' financial position over the past decade



Figures in ₹ crore; Source: CMIE Prowess & company

ness financially. "JLR has enough cash on its books. The Indian unit has also paid for the acquisition. Then, why can't we take back the free cash to reduce the debt?" JLR has a debt of £2.5 billion. However, cash reserves stood at £4.3 billion. In addition, it has undrawn credits to the tune of £1.5 billion.

But JLR has ambitious investment plans lined up. It plans an investment of £3.6 billion to £3.8 billion in this financial year to grow its footprint in China, Brazil and Russia, in addition to the European markets. JLR chief Ralf Speth says the company will spend £400 million for manufacturing Jaguar XF and aims to make it a landmark product. "We are ramping up the sales of the new Jaguar XE now. After the XF, 16MY Evoque and F-PACE will be launched in early 2016," he says. "We are using our entire capacity. There is shortage in supply compared to the demand of JLR vehicles. For that we are looking at expansion."

Reinventing Tata Motors

After the sudden demise of Karl Slym, former chief executive of Tata Motors in January 2014, Mistry has been spending a substantial chunk of his time and bandwidth in reviving the company and ensuring innovation in technology, design, marketing and after-sales service. The company launched two new products – Zest and Bolt – last year as part of its new strategy. In 2015, it has unveiled a refurbished version of Nano, GenX Nano.

The car maker has taken several steps to improve the quality of vehicles as part of its 'HorizonNext' strategy. The manufacturing and engineering processes have changed, asserts a Tata Motors spokesperson. "At Tata Motors, we are in the process of developing multiple new platforms in line with market requirements and constantly working towards improving the performance and reliability of our existing ones. Besides products, we have also developed a host of innovative service offerings, along with various technological upgrades," adds the spokesperson.

The 'HorizonNext' strategy, introduced in June 2013, has focused on new launches. Tata Motors has unveiled eight improved and enhanced vehicles across five key brands including Nano Twist, Zest, Bolt, GenX Nano and the Safari Storme Refresh. The launch of Zest and Bolt – designed with inputs from Tata Motors' design centres in the UK, Italy and India (Pune) – has revived the demand for Tata cars and there is consistent rise in month-on-month sales of PVs. In the first five months of this year (January-May), the overall sales of Tata Motors' PVs rose 20 per cent to

Interview with Ravindra Pisharody at
businesstoday.in/tata-pisharody

"We are using the entire capacity. Supply of JLR vehicles is falling short of demand. We are looking at expansion"

RALF SPETH, CEO, Jaguar Land Rover

RACHIT GOSWAMI

64,261 units over the same period last year. Moreover, Mistry wants to continue with at least two passenger vehicle launches every year until 2020. Typically, new models usher growth, says a Maruti Suzuki spokesperson. "In fact, all original equipment manufacturers (OEMs) that brought new models in the last financial year benefited and grew in the market," says the spokesperson.

Meanwhile, the Indian unit of Tata Motors has also learnt from JLR. "We learnt processes from JLR but not shared any technology," says Pareek. Speth of JLR points out that the synergy can't go beyond processes because the business and science of luxury cars is completely different from that of mass vehicles.

Tata Motors has also introduced Forward Model Quality (FMQ) and Launch Quality Operating System (LQOS) programmes to boost sales. The FMQ team works closely with design and development teams, right from the early stages of the product evolution. The idea is to design a product keeping in mind the changing needs and demands of the end customer.

The LQOS process ensures that teams involved in product development, manufacturing, material planning and logistics, partner for steady new products launches. The company claims that the quality and finish of the vehicles improved as a result of these initiatives.

Another hurdle along the way is the poor brand perception of the Tata vehicles and needs to be changed. It will be possible only by launching blockbuster products. Historically, Tata Motors has been a late entrant in many categories and missed developing trend-setting products like Scorpio, Innova, Honda City and Renault Duster. Such products will dramatically alter the perception about Tata products, say several brand specialists.

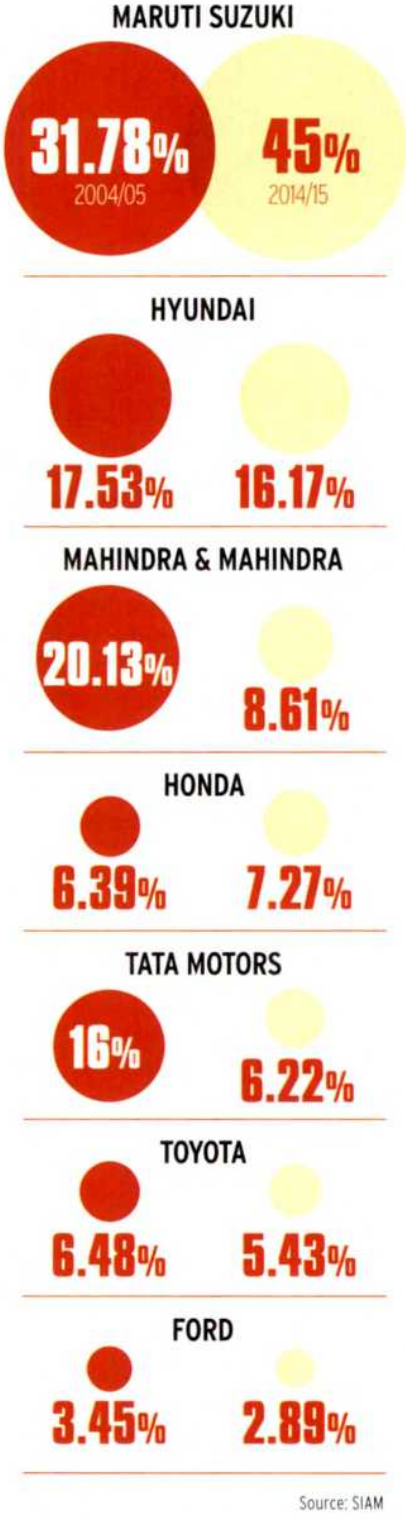
12%

Growth in Tata Motors's passenger business in June 2015. The industry clocked negative growth in the same month

Kaushik Madhavan, head of automotive and transportation practice, Frost & Sullivan, a global consulting firm, says there will be opportunities in compact SUV, crossover and sedan categories. The margins are better in these products. Competition will rise in the hatchback segment since new transmission technologies (which control the speed of the vehicle) will play a major role in luring customers. Global carmakers such as Volkswagen and Ford have introduced sporty but expensive dual-clutch transmission (DCT) but Japanese companies Honda and Nissan have opted for the fuel-efficient continuously variable transmission (CVT). "For fighting them, Tatas have chosen the cost-effective and fuel-efficient mass market technology, automated manual transmission (AMT). Zest is an AMT machine, while Maruti uses it in Celerio and Alto K-10," says Madhavan. AMT is an auto gear shift tech-

Downhill Ride

Tata Motors's passenger vehicle market share has shrunk in the past decade



Source: SIAM

nology and is designed for heavy traffic conditions.

Batra of EY says modularisation in the architecture of the car is going to be the next phase in engineering. "The areas inside the car are being developed as modules in the developed world. Modularised architecture will save costs as the car maker doesn't need to design it for each product." Tata Motors will benefit from modularisation if the company opts for it, given its large portfolio, say analysts.

A customer requires four things from any automobile manufacturer – a sound product, robust build quality, goods sales experience and reliable service support, points out Pareek. "Any player can capture market share in the country if they deliver on these four pillars of customer requirements. After all, market share is but a result of the value proposition of an OEM's products," says Pareek. So, Tata Motors is hopeful of a comeback.

Tata Motors plans to build global standard products, as a part of the Horizonext initiative. Zest, Bolt and GenX Nano are part of this strategy. There are several new products in the pipeline including Kite (Hatchback and Sedan), Nano Diesel, Hexa (premium crossover SUV) and Nexon (compact SUV). The company has built a process for improving the quality of its products, says Pareek. "Our processes have changed, materials have changed and the engineering itself has changed." The automaker has decided that the new products will only be available for individual customers and not for fleet operations.

Competition in CV Market

Meanwhile, in the CV segment, Tata Motors has had to contend with growing competition from global giants. Daimler and Volvo, the world's top two players in CVs, are trying to find a toehold in the Indian market. Daimler started production in June 2012 and launched its first heavy-duty truck in three months. Volvo rolled out its first truck way back in 1998 in India but has, so far, preferred to compete in the premium category without touching the mass market, dominated by Tata Motors and Ashok Leyland.

Tata Motors has managed to prevent a big erosion in its market share. "We are keen to protect our dominance in market share. Today, there are at least eight players in the truck business, while it was two or three about seven years ago. Competition has been coming in. However, our market share has not fallen more than one or two per cent. We are geared up for competition," says Ravindra Pisharody, Executive Director, Commercial Vehicles at Tata Motors. To deal with the competition, Tata Motors is looking to brand commercial vehicles despite a dip in sales of Prima top-end trucks.

The economic slowdown impacted demand for trucks in the country. "When the economy slides, the capacity utilisation of trucks will slip drastically. As a result, fleet owners postpone new purchases," says Pisharody. "In CV purchases, everybody takes a loan of 80 to 90 per cent. Since paying instalments is directly related to their monthly income, many customers delayed new purchases to replace the old trucks."

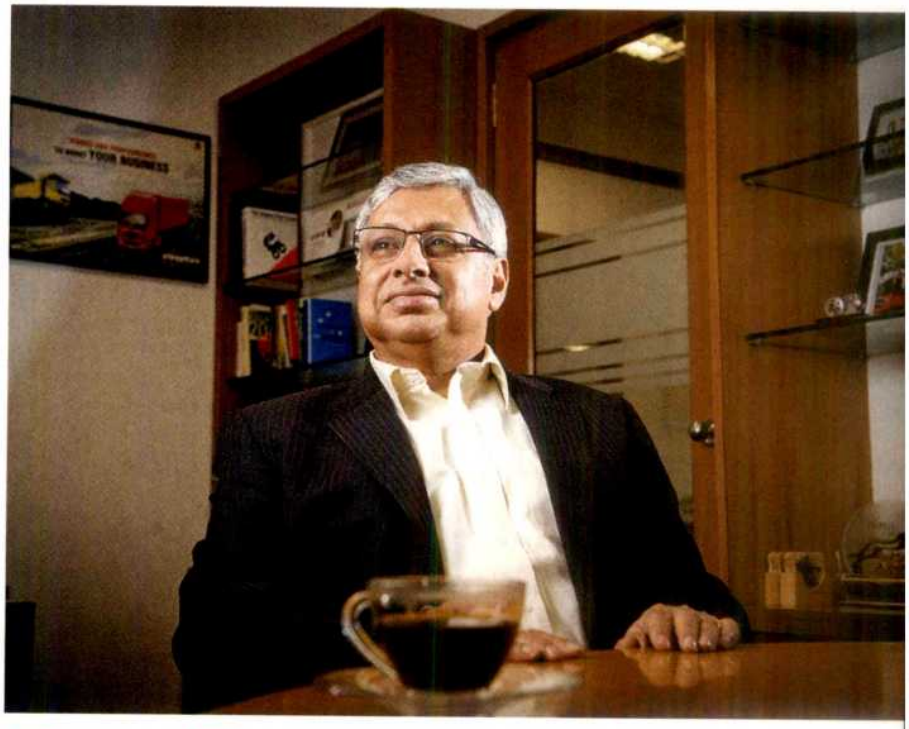
The incipient economic recovery, though, is leading to a gradual turnaround in the business environment for CV makers. After more than two years, demand for medium and heavy commercial vehicles (M&HCVs) has started picking up. Light commercial vehicles (LCVs) too are expected to see a revival soon, says Pisharody. In the first two months of this financial year (April and May), the cumulative volume sales of Tata CVs clocked at 55,683 units, compared to 56,215 and 78,610 in the same period in FY 2014 and FY 2013, respectively.

Wooing Customers

Tata Motors is going all out to woo customers. The company has decided that all customer-related concerns need to be resolved by the dealer within 24 hours of any complaint. Indeed, the management is directly monitoring the complaints. "Starting October 2014, we have noticed that the resolution rate has risen from 13 to 65 per cent as of January, 2015," says Pareek. The company has also upgraded over 200 showrooms to leverage technology and provide superior after-sales service. With the new 'Express Service' programme, the service teams have been able to deliver vehicles in 90 minutes, says the company spokesperson. "We have also introduced a new audit system with AC Nielsen for continued tracking and monitoring of the service network. Each service touch point is reviewed at regular intervals in the new audit system," the spokesperson adds.

On the supply side, the company has re-worked the logistics management system for speedy spare parts delivery. Tata Motors has also beefed up its distribution warehouse network – it has added a facility in Pune. Other initiatives include national service camps, mobile service vans, driver training schools and focused service engagements for the fleet service. At the recently concluded nationwide service camp, the company received almost 1.2 lakh vehicles for maintenance.

"We are helping our channel partners in enhancing their processes for recruitment, training and retention of employees. We have got new-look dealerships. We are also ensuring extensive training of the staff on the use of technology at the dealerships including video walls and new tablet-based customer engagement to ensure best-in-class customer experience," says an official. The company has deployed nearly 4,000 new tablets to ensure that the staff is well-geared to meet customer needs.



RACHIT GOSWAMI

"Competition has been coming in but our market share has not fallen more than one or two per cent. We are geared up for competition"

RAVINDRA PISHARODY, ED, Commercial Vehicles

Over the last two to three years, the company has slowly tried to lay the foundation of a performance-oriented culture. "We go through the whole process of setting targets and evaluating the performance of individuals. This method is becoming more stringent and objective every year. With this process, we continue to strengthen our HR processes and systems to identify, nurture and develop internal talent," says the official.

Meanwhile, Mistry has already given the mandate for finding a CEO for Tata Motors. The company has had no CEO after Karl Slym. Mistry has led the company in the past one and a half years. Kavil Ramachandran, Professor at the Indian School of Business (ISB), says Mistry has passed many tests since taking over the mantle of the Tata Group. "He has, with quiet confidence, led the group through the current turbulence. He seems to be focused on consolidation and selective growth."

However, putting Tata Motors' PV business back on track is going to be his acid test. ◆

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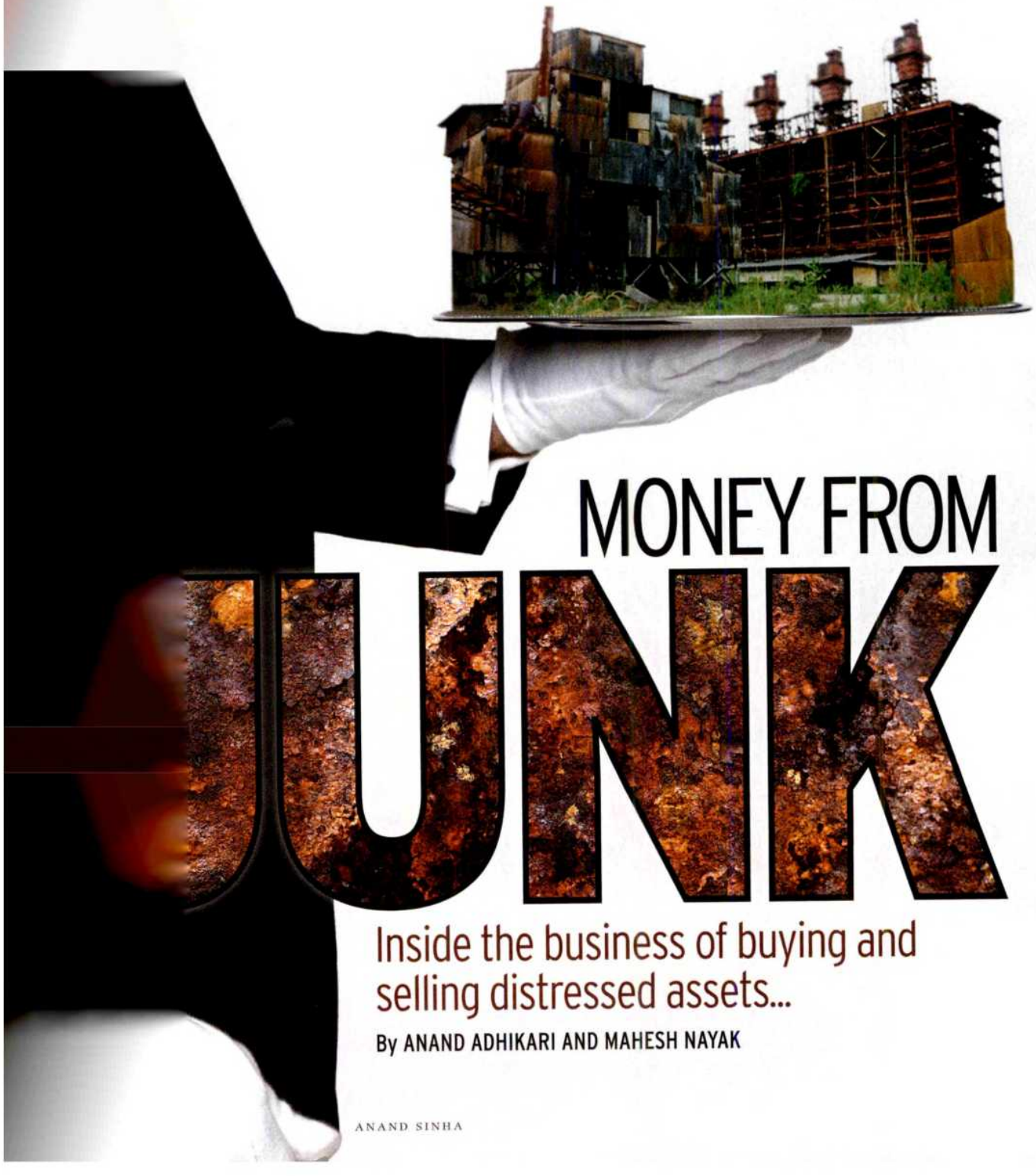


MONEY FROM JUNK

Inside the business of buying and selling distressed assets...

By ANAND ADHIKARI AND MAHESH NAYAK

ANAND SINHA

THE BIG PICTURE

Only a fraction of the stressed loans have been sold by banks

Total advances by banks
₹70,00,000 crore

Total distressed assets
₹7,70,000 crore

Gross NPAs
₹3,10,000 crore

Total loans sold to ARCs
₹1.89 lakh crore*

Loan, distressed assets and NPA figures are estimates for March 2015;
*Book value of the total loans; ARCs, however, bought at a discount, paying ₹62,551 crore;
Source: Market

On the 10th of every month, State Bank of India's headquarters at Nariman Point in South Mumbai plays host to some eager guests. Heads of several of India's 15 asset reconstruction companies (ARCs) make a beeline to review the 'for sale' bad loans that India's largest bank would be willing to hawk for a price. A similar exercise takes place at some of India's largest banks, though not necessarily with such regularity.

Till fairly recently, such meetings were infrequent and resulted in one-off transactions. But, of late, the intensity of deals emerging out of such exchanges is soaring. And that, in turn, is giving rise to an unprecedented boom in India's distressed assets business. In the first decade of the existence of ARCs, banks sold all of ₹87,049 crore of bad loans for ₹19,308 crore. But in the past two years alone, ARCs have bought bad assets worth ₹1,02,068 crore for ₹43,243 crore. Last year, SBI alone had shed assets worth ₹12,500 crore, Bank of India ₹2,844 crore and Central Bank of India ₹1,119 crore. These include SBI's ₹1,600 crore loan in Bharati Shipyard to Edelweiss ARC, ₹900 crore Hotel Leelaventure loan to JM Financial ARC and ₹1,500 crore loan in Corporate Power to ARCIL.

Several factors are driving this flourishing trade in bad assets. But the biggest trigger came in November 2013 when Reserve Bank of India Governor Raghuram Rajan, in a strongly worded exhortation, asked the banking system to clean up its act. "You can put lipstick on a pig but it doesn't become a princess. So dressing up a loan and showing it as restructured and not provisioning for it when it stops paying, is an issue," he had said. Until then, scared to bell the cat, banks had been ever-greening their bad loans – and slipping deeper into the abyss. What alarmed Rajan was that the gross and net non-performing assets

TOP 5 PLAYERS

ARCIL
The oldest ARC set up by leading commercial banks in India

Vinayak Bahuguna

Edelweiss ARC
The largest in terms of AUM at ₹20,000 cr

Siby Antony

JM ARC
Third largest in terms of AUM. Bought Hotel Leela's loan worth ₹4,100 cr.

V.P. Shetty

Phoenix ARC
Kotak has been working in the distressed space even before the ARC concept came about. Works in the sub-₹100-cr space; delivers strong returns.

Eshwar Karra

IARC
Global private equity player KKR is taking an equity stake in it

Birendra Kumar

AND OTHERS

ACRE

ASREC (India)

Pegasus Assets Reconstruction

Alchemist Asset Reconstruction Company

Reliance Asset Reconstruction Company

Pridhvi Asset Reconstruction and Securitisation Company

Invent Assets Securitisation & Reconstruction

ISARC

UV Asset Reconstruction Company

Meliora ARC

THE BIG BAD LOAN SALE

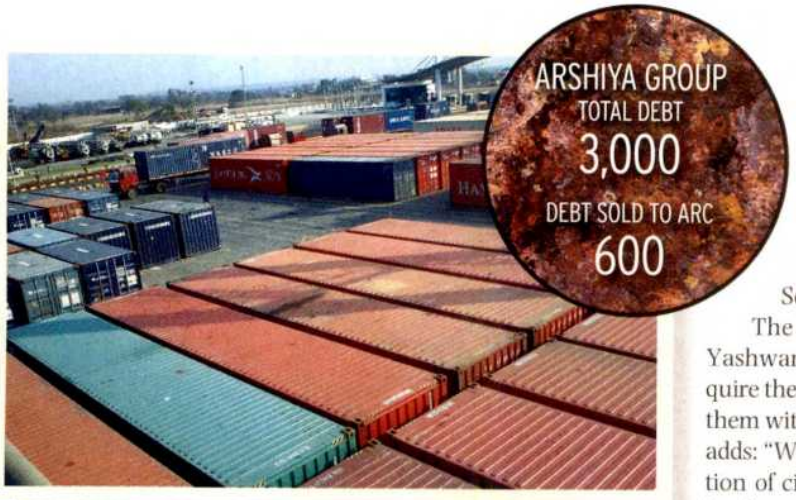
It's getting bigger, better and also riskier

(NPAs) in the banking system had hit an alarming 4.2 per cent and 2.2 per cent, respectively, by September 2013 when Rajan came in, against an average of 2.6 per cent and 1.2 per cent, respectively, between 2009 and 2013.

Under Rajan's stewardship, the RBI has announced a host of measures that have fuelled distressed asset sale business. Early last year, the central bank allowed the banks to sell even the loans where the principal or interest was overdue by 60 days rather than 90 days, earlier. In essence, it allowed banks to start selling assets early if they felt the loan was non-redeemable. Other factors are also responsible. ARCs are betting heavily on the proposed new bankruptcy law which will give them a greater leeway (including sale of whole or part of the company and change of management or promoter) to revive the distressed assets. Four, in general, the industry believes that the Indian economy has seen through the worst of the slowdown and things can only look up from here. And, those who have the cash are happy to buy distressed assets since they come at a significant discount to an identical greenfield project.

For over 10 years, it was only ARCIL, backed by SBI and ICICI, which was active in buying loans from its sponsor banks. But a majority of new ARCs have been set up after 2008/09. Among the newest, Edelweiss ARC which was set up in 2009, has worked up a portfolio of over ₹20,000 crore. At the second spot is ARCIL with a portfolio of ₹11,000 crore. The top five ARCs make for nearly 90 per cent of the accounts under management. Essentially, that means the ARC takes over the asset, or company, and tries to revive it by managing it better, instead of trying to recover money by selling off parts of it. Not everybody is chasing assets under management (AUMs) though. "We look at it as an investment business. We are not in the AUM game," grins Eshwar Karra, CEO of Phoenix ARC, Kotak Group, formed in 2004. Karra deals with only sub-₹100-crore loans, with a focus on turning around the companies and sold quickly instead of volumes

The big reason why ARCs remain enthusiastic is because sale of bad loans will only intensify. Banks, after all, are sitting on a pile of bad debts. Of the ₹70 lakh crore that the banking system has given in advances, nearly ₹7.7 lakh crore is believed to be classified as 'stressed assets' that have defaulted on their payments. Of this, ₹3.1 lakh crore is already defined as gross NPAs on which there has been a default. A lot of that is likely to be made available to ARCs for sale. So, while the banks are being pushed by the regulator to clean up their books, ARCs see an opportunity of making big bucks like their counterpart asset manage-



Figures in ₹ Crore
Debt figures for 2014/15
Source: Market/ARCs

ment companies (AMCs) and hedge funds in the US.

Globally, the distressed assets market began to emerge in the late 80s and early 90s in the US. In fact, most of the modern day private equity firms – KKR, WL Ross and JC Flower – owe their existence to early successes in the distressed assets business. By now, the US is also a major market for the ancillary industry around distressed assets, including trade in bonds of distressed companies and turnaround funds which buy completely broke companies, take over their managements, turn them around and then sell them. In Asia, the distress industry grew post the East Asian currency crisis in the late 90s. Early distress investors, such as Clearwater, Cerberus Capital, GE and Loan Star Funds, have made significant gains from such junk assets. Over the years, hedge funds have become rich and powerful enough to intervene in sovereign debt as Argentina is beginning to discover in the bitter dispute between two New York hedge funds Gramercy Funds Management LLC and Elliott Management Corp. In fact, Elliott even impounded an Argentine Navy vessel for non-payment, while the Argentine President Cristina Fernandez de Kirchner has vowed never to negotiate with the fund calling it "vultures".

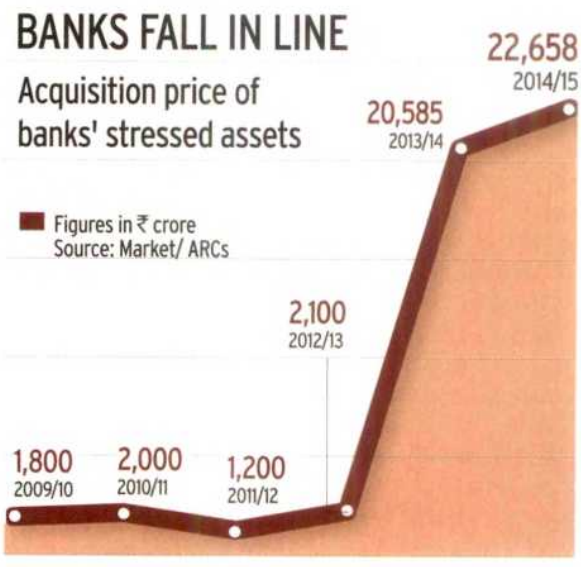
A Hard Job

Despite the enthusiasm around distressed assets, it is not a job for the faint hearted.

ARCs are a breed born out of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act of 2002. The objective, says former finance minister Yashwant Sinha, "was to enable the banks to acquire the securities which had been pledged and sell them without the interference of the courts". Sinha adds: "We did away under this Act with the jurisdiction of civil courts and gave a huge power to the banks to deal with the issue of NPAs."

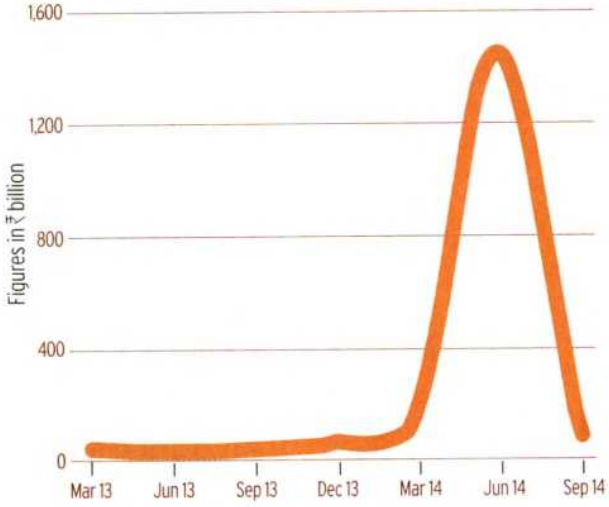
Not everything has panned out exactly as planned. Several legal and regulatory hurdles have meant that ARCs were unable to exercise the kind of freedom to turn around these bad assets. "We have such a decrepit system for enforcing securities. In theory, it should be easier to enforce a pledge to sell a company and kick the management out, but most company managements will not go easily, and buyers don't want to get into this trouble. He will buy only if you are giving it to him 100 per cent in an uncontentious manner," says Harsh Pais, Partner, Trilegal, a Delhi-based law firm.

Take the case of Bharati Shipyard. A year after Edelweiss ARC bought Bharati Shipyard's ₹4,570 crore loan from 12 of its 23 bankers, there awaited a surprise. As many as nine winding up petitions appeared out of the blue in the Bombay High Court thwarting the attempts of Edelweiss to turn around the cash-strapped ship building firm. Surprisingly, insurance giant Life Insurance

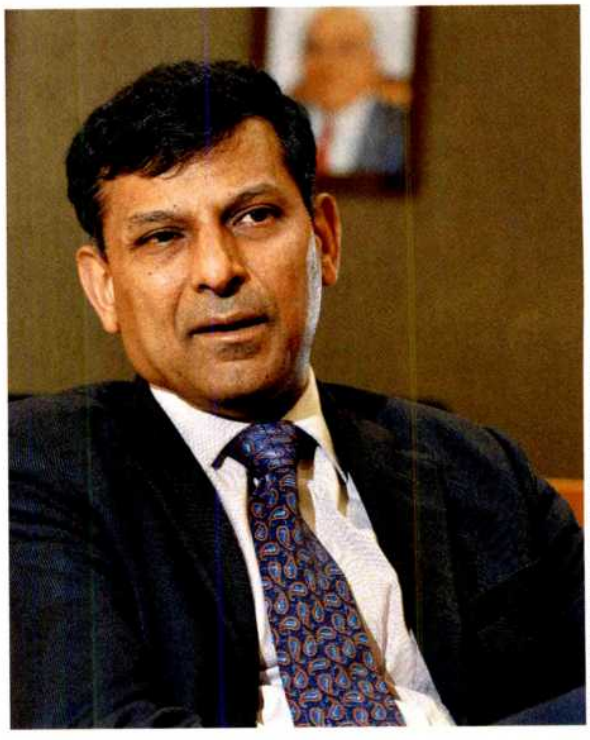


CHANGING HANDS

Asset sale to ARCs has shot up in the past two years



Source: RBI Supervisory Returns



PHOTOGRAPHS BY RACHIT GOSWAMI

RAGHURAM RAJAN, Governor, RBI

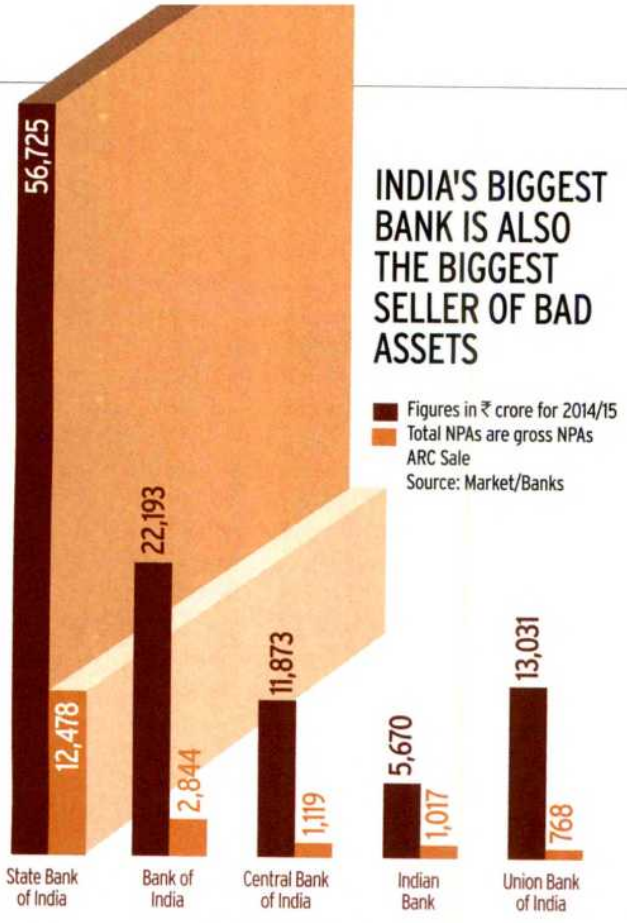
"You can put lipstick on a pig but it doesn't become a princess. So dressing up a loan and showing it as restructured and not provisioning for it when it stops paying, is an issue"

Corporation (LIC) was also one of the petitioners despite being a secured creditor.

Yet, Edelweiss group chairman and CEO Rashesh Shah remains bullish. Shah, who began his career with the ICICI group when it was still a development finance institution and had not turned into a bank, believes he knows how to deal with stressed assets. "Very often a distressed company is still viable, but it is just that it is indebted," says Shah.

Last year, SBI and Bank of India jointly sold a loan of a distressed commercial mall in upmarket Bangalore. Phoenix ARC and Edelweiss ARC acquired the loans at different points in time from three banks and they agreed to work together to revive the Mall. It was a semi-finished mall with a loan outstanding of ₹400 crore. The project also had ready tenants on papers, but because of lack of funds, the mall's work was suspended indefinitely. The banking channel refused to lend and non-banking financial institutions (NBFCs) were circumspect. The two ARCs acted swiftly by bringing in an additional ₹70 crore to complete the project. "The stalled mall had no value, but by infusing additional funds, we will increase the value of the fully occupied mall to ₹600 crore based on the annual lease rental income of over ₹60 crore," says Shah. If it goes according to plan, both Edelweiss and Phoenix ARC will make supernormal profits in this distressed asset. The lending banks, too, will get their money back. Phoenix ARC's Karra says resolution works for him as the company boasts the highest 70 per cent redemption record of security receipts issued to banks in exchange of bad assets. Shah is, however, looking at the restructuring route by working with promoters alongside: "We see this as a resolution business, while many of our peers are looking at it as a recovery business," he says, adding: "Resolution business is more of aggregating debt, fresh infusion of capital, identification of non-core assets, and bringing in a strategic partner. This requires a good mix of financing background, investment banking capabilities and also an understanding of the equity market." Edelweiss ARC is manned by IDBI Bank's former executive director Siby Antony.

Sale of loan to ARCs, however, is the last resort for banks. Unlike retail defaulters where banks are known to hire musclemen for quick recovery, corporate loan recovery is a different ball game. At times, there are labour unions demanding their pound of flesh; statutory authorities like income tax to excise jump in to claim their dues; employees approach the court for bankruptcy proceedings. But in most cases it is the deposed promoters/management



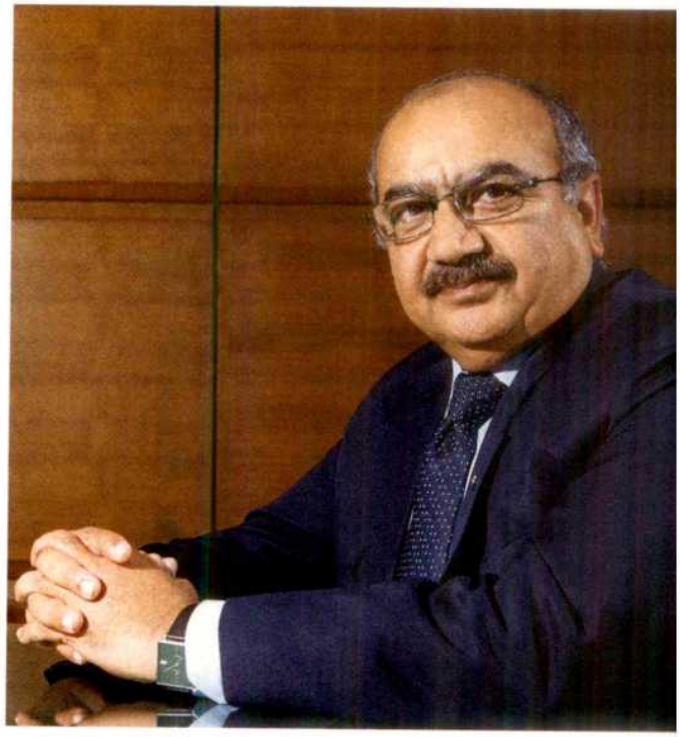
SBI's SALE TO ARCs

Total NPAs sold	12,478
Provisioning made in the books	3,871
Net book value of assets	6,981
Sales to ARCs @ 13.25 % discount	6,056
Cash received by SBI	1,059
Security receipts issued by ARCs	4,997

Figures in ₹ crore Source: SBI

that pose the biggest hurdle in a revival.

Sitting at the Edelweiss House in a Mumbai suburb, Antony is strategising to push the Bharati Shipyard winding up petition out of his way. Bharati has promised to repay the unsecured creditors in 12-15 months. Antony has also engaged with Bharati Shipyard's promoters P.C. Kapoor and Vijay Kumar, and other lending banks which did not sell their loans.



P.K. MALHOTRA DEPUTY MD, State Bank of India

"ARCs have much more flexibility than a bank in restructuring a loan"

Not far away from Edelweiss' suburban headquarters is the 17th floor office of P.K. Malhotra, Deputy Managing Director (Stressed Assets Management) of State Bank of India. Malhotra, a veteran of banking with over three decades of experience, cannot seem to hide his smile. SBI had even hired consultant Alvarez & Marsal to turn around Bharati, but with no success. In fact, a corporate debt restructuring could not save Bharati. Malhotra, who spends most of his time identifying the bad loans for auction, is making sure that the bank has exercised all its options before parting with the loan. Banks' options start with a CDR package, suggesting one time settlement, exiting non-core assets, infusing additional funds, bringing in strategic investors and then suggesting complete takeover by another player.

For Malhotra, keeping bad loans in SBI's books is like feeding a white elephant. The ARC route gives the bank 15 per cent (earlier 5 per cent) of the negotiated sale amount as upfront cash, while the remaining stays in the book as investment in security receipts (SRs), which gets

redeemed over a period of five to eight years, depending on the ARCs' ability to recover. Past records show that ARCs returned 50 per cent of the SRs issued to banks. Clearly, Bharati is off Malhotra's back today. It is now the headache for Antony. The company founded by two technocrat-cum-entrepreneurs from IIT Kharagpur – Kapoor and Kumar – has been making huge losses for the last three years.

Any setbacks, such as that of Bharati's, haven't deterred top ARCs from buying big. ARCIL, the oldest ARC, bought another whopper of a deal in April this year. It acquired the ₹3,000 crore bad loans of Corporate Power, a company belonging to Nagpur-based Abhijeet Group.

For almost two years, its bankers had been negotiating with potential buyers, such as SREI, JSW, NTPC, TATA and the Adanis, to sell the loan, but with little success. SREI Infra was the first to show interest, but the deal couldn't go through because bankers were not ready for a major haircut. They believed that the company could be revived as its 1,080 MW power plant installed by BHEL (no Chinese equipment, stresses a banker) had a captive coal mine. "The plant was near the pit head. The coal was of good quality. The transportation cost was minimal," says the representative of a lender. There was an interest for complete buyout, but negotiations fell through midway. The reasons were the uncertainty over the mines as it came under CBI investigations for irregular allotment of coal mines (see *The Big Asset Sale*).

There are success stories too. Edelweiss claims to put Electrotherm (India), a leader in induction furnace, on a revival path. Edelweiss bought ₹1,500 crore of the ₹3,400 crore debt from over half-a-dozen banks. "We converted a part of the debt into equity," says Antony, whose ARC now holds a 10 per cent stake in the unit. Today, Electrotherm, which has been a loss-making unit since March 2012, has seen its revenues jump from ₹659 crore in 2013/14 to ₹1,829 crore in 2014/15. "I have to ensure 18 per cent IRR (internal rate of return) otherwise there is no business in the bad assets," says Antony.

THE BIG BUYERS

EDELWEISS ARC IS THE MOST AGGRESSIVE

Edelweiss ARC
20,000

ARCIL
11,000

JM Financial ARC
8,500

Phoenix ARC
3,000

IARC
1,500

Figures in ₹ crore
AUM is the acquisition price of the bad assets
Source: Market/Banks

AUM figures (Security receipts issued net of redemption) 2014/15
AUM (as on March 31 2015)

Bankers' Dilemma

The sale of large NPAs, such as Bharati and Corporate Power, indicate a clear change in the banks' approach towards selling bad loans.

Earlier, banks sold only the written-off bad loans which were practically dead assets. They also sought a high price. Now, with the RBI on their case, banks are in a bind, even as there is no respite from bad loans. For public sector unit (PSU) banks, the government has stopped liberal funding of capital every year. The only option now is to generate cash by selling bad loans to ARCs.

Take for instance the case of SBI, which sold the biggest chunk of bad loans of around ₹12,000 crore in its history in 2014/15. "This has helped us to clean our balance sheet. The transfer to ARC will also generate some return for us in the future," hopes Malhotra. This is true for the banking sector at large. ARCs, says SBI, remains the most pro-active. In fact, it has made sale of bad assets like an assembly line activity. The bank's monthly sale of NPAs (quarterly earlier) say a lot about SBI's seriousness to clean the books. "We have substantially improved our information inputs to ARCs," says Malhotra. SBI allows three weeks to ARCs to do their due diligence before accepting the bids. (See *SBI's Sale To ARCs*).

Undoubtedly, the big shift in SBI's approach is the sale of fresh NPAs, such as the Hotel Leelaventure exposure of ₹4,200 crore. It was put up for sale within three months of declaring it as an NPA. The sale to JM Financial ARC, however, came as a big surprise to the promoters of the luxury hotel chain. The bank reasons that there was no hope of generating cash in the next four to five years.

Patron RBI

Much of the credit for the excitement in the distressed assets business must go to the RBI. "Most of the changes have come from the regulator, which is also in response to the

RASHESH SHAH, Chairman, Edelweiss Group

"We see this as a resolution business, while many of our peers are looking at it as a recovery business"

build up of NPAs in the system," says Nikhil Shah, Managing Director at Alvarez & Marsal. (See *The Push Has Come From The RBI*).

In the past 18 months, the RBI has introduced a slew of reforms, including hiking the initial investment by ARCs from 5 per cent of the acquisition amount to 15 per cent, to discourage ARCs from relying heavily on the management fee model for their survival.

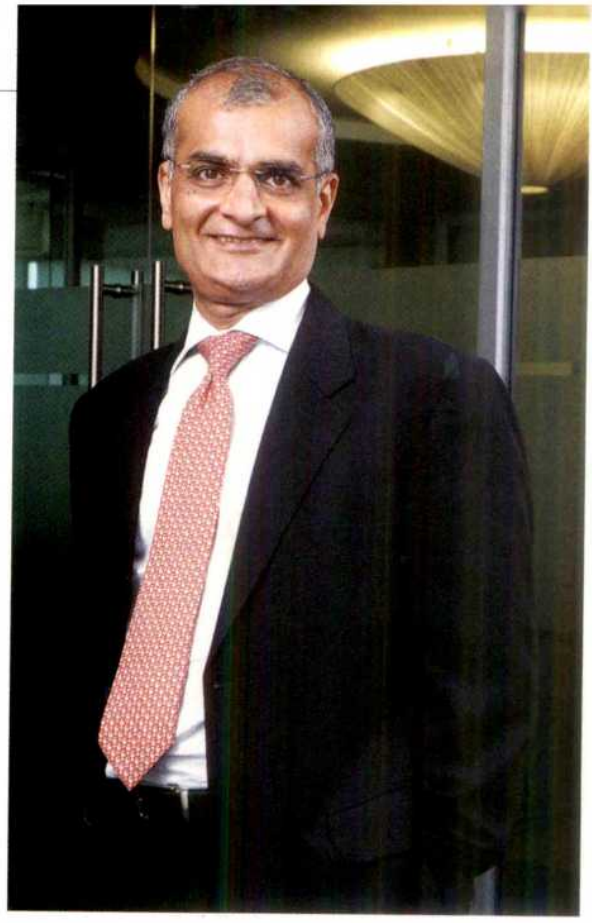
In the 5:95 model, ARCs used to buy a bad loan at a discount from banks' book value by paying just 5 per cent upfront in cash, while the balance was in the form of security receipts issued by them. ARCs also get a management fee of 1.5 per cent every year on the overall AUM they manage. In the 5:95 scenario, ARCs were content playing the management fee model because on an investment of ₹5 (on a ₹100 loan), they were earning ₹1.5, which meant a 30 per cent rate of return on the investment of ₹5 (see *Route To Recovery*).

Ever since the RBI mandated the cash composition to 15 per cent (15:85 model) in August last year, ARCs have a greater stake in moving from the 'management fee' model to the 'investment model' as the 1.5 per cent management fee only amounts to 10 per cent rate of return on a cash investment of 15 per cent. This gives the ARCs more of an incentive to actually turn around the company and make it profitable, instead of just passively earning profits through management fees. It also ensures that they work harder.

Restructure, Resolve and Deliver

ARCs have no magic wand to revive a sick unit. They mostly use the bilateral route by working alongside the promoter to de-leverage the business. "We are financial restructuring specialists. We are not business restructuring experts," says Eshwar Karra, CEO of Phoenix ARC. Players like ARCIL and Edelweiss are playing in big loans where dozens of banks are involved. Loan aggregation is a huge challenge and the resolution strategy centres around restructuring of loans to revive a unit.

JM Financial, which bought the Leelaventure loan, is in a bind. Loss-making Leela is asset-rich with well-run hotel properties. JM is still in dialogue with the company's management, which is asking for certain concessions in interest and repayment terms from JM Financial. Meanwhile, Leela has also approached the government to provide concessions to the hotel industry, in terms of



ROUTE TO RECOVERY

How banks get their money back through security receipts (SRs) issued by ARCs

STEP 1
Banks sell a bad loan to an Asset Reconstruction Company (ARC)

STEP 2:
ARC pays 15% upfront; issues SRs for the remaining 85% to banks

STEP 3:
ARC starts the turnaround and recovery process

STEP 4:
It earns 1.5% as management fee

STEP 5:
Recovery proceeds to be shared by the banks and ARC

STEP 6:
If the ARC fails to recover the bad loans within eight years, banks write-off the investment

loan refinancing. "We have represented to the government for longer term loan for hotel industry by including existing hotels in the refinancing scheme. We are awaiting response," says Vivek Nair, Chairman and Managing Director, Hotel Leelaventure.

Three months ago, JM had put out an advertisement for the sale of Hotel Leela's Chennai and Goa properties to reduce the debt burden. "They are yet to zero in on the sale. In this difficult environment selling a large hotel property is very difficult," says a banker. In May this year, the company decided to mobilise ₹1,000 crore through equity or debt. "Ultimately, Hotel Leela will be a strategic sale to a big hotel chain," says a rival ARC official. JM Financial refused to participate in the story.

Edelweiss ARC, on its part, is arranging ₹600 crore from high networth individuals (HNIs) to complete its order for delivering a couple of ships to Bharati Shipyard. Unlike banks, Edelweiss ARC has the flexibility to reduce the interest rates drastically, whereas banks cannot lend below their base rates. Similarly, Edelweiss could convert part of Bharati's debt into equity, whereas such decisions by banks would come under scrutiny. ARCs actually have no such worries. "Our short-term plan is to revive the company in 24-30 months," says Antony. There are some who say new investors (generally private equity) demand priority over existing lenders as they are taking a bigger risk. "This preference is not acceptable to those banks who have not sold their loans," says a market observer.

While ARCs try to identify and take only those assets which can be made viable, it does not always play out that way. The oldest, ARCIL finally got the Corporate Power loan at a hefty discount, but the entire economics of the project has now turned on its head. The coal mine was re-auctioned recently to another player. Now, the coal mine advantage does not exist any more. Another big negative is the location of the unfinished plant. The Corporate Power plant is in Chandwa in Latehar district of Jharkhand, which is a Naxalite-affected region. "We are working towards a resolution. We have to finish it. We have to get coal linkages. We have to also get the power purchase agreement (PPA) revised," says an official of ARCIL.

"Banks generally have factory buildings or land as security, but what about the other assets in a business which are not subject to security, such as business licenses, contracts, customers, employees, etc.? How do you transfer these assets under SARFAESI? There is a big hurdle in transferring the continuity of the business," says Haigreve Khaitan, Partner at Khaitan & Company.

THE PUSH FROM RBI

Raising ARCs' initial investment from 5% to 15 %

RBI says ARCs must restructure the loan within 6 months, not 12

Banks can sell any loan which is overdue for 60 days though these are technically not NPAs

FIIs can invest up to 74% in ARCs

ARCs can join banks to become a member of the lenders' forum

ARCs can repay SR obligations to banks in 8 years, not 5

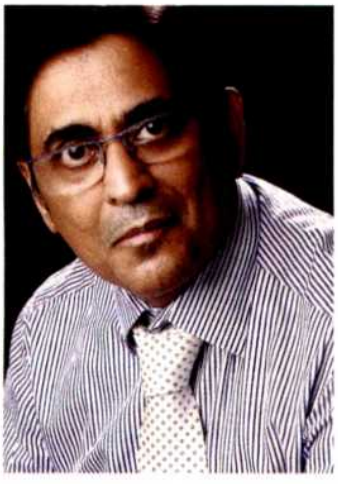
ARCs are allowed to invoke SARFAESI Act, if they can aggregate 60% of the debt

AMCs vs ARCs

Globally, governments create asset management companies to deal with stressed loans

- AMCs are usually set up after a systemic financial crisis, whereas ARCs in India were set up as a proactive measure
- ARCs are sponsored by banks or non government bodies, whereas AMCs are set up by the government for quick resolution
- ARC is a perpetual institution model to deal with distressed asset in an emerging market like India, whereas the global ARC model deals with a specific crisis or cyclical problem
- In good times, the ARC model could be misused by banks to transfer their bad loans in order to clean up their books, while AMCs are not available when there is no crisis
- ARCs have to run after banks to aggregate loans, whereas in many countries, AMCs get the combined loan exposure
- ARCs have to work in the same legal system as banks with some special powers, but AMCs are given far-reaching powers to resolve bad loans
- AMC is a recovery model mandated for faster resolution, whereas ARCs are more of a resolution and revival model and, therefore, takes between 5 to 7 years to resolve a bad asset
- Governments have funded many AMCs in the past, whereas ARCs in India have to fend for themselves
- Eventually, ARCs in India will work like a buy-out fund, whereas globally, government-funded AMCs are mostly used to park bad loans, such as the ones seen during the Asian crisis, in countries such as Korea, Thailand and Indonesia

Column by Nihal Kothari at
businesstoday.in/ARC-kothari



OPINION HARI HARA MISHRA

THE NEXT FEW STEPS

ARCs were setup under the SARFAESI Act, 2002, to relieve banks and financial institutions of the burden of NPAs and allowing them to focus on their core activities. In the last few years, stressed assets of the Indian banking industry have risen alarmingly and is at a level of over 11 per cent of gross advances. However, ARCs which were created to combat this menace of growing NPAs, have not been effective in absorbing the accumulated stock and increasing flow. This has necessitated a review of the functional effectiveness of ARCs and measures are required to strengthen the institutional framework.

Even after 12 years of its existence, the ARC sector is still struggling to play an effective role. Aggregate networth of all 15 ARCs is just about ₹3,400 crore, compared to the outstanding gross NPAs of the banking system at over ₹3 lakh crore, which is nearly 100 times the combined net worth of all ARCs. If we take cognizance of the whole of stressed assets, including restructured assets, the presence of ARCs will look still more diminutive.

ARCs lack the capability to stand up to the challenge. Even in cases where they would like to acquire, there is a stalemate over NPA sales, because of the price expectation mismatch between banks and ARCs. Banks have time-based provisioning and, quite often, there is a disconnect between the underlying value of an asset and its book value. Public sector banks tend to play safe in having a 'provide and hold' approach to NPAs rather than sellling it at a lower price due to apprehensions of accountability for taking such a decision on a later date. For NPA resolution, debt aggregation is the key to sort out inter-creditor issues. However, due to lack of uniformity in asset classifications, variations in security and charge particulars, and differing price expectations in respect of assets across various banks, debt aggregation suffers and creates bottlenecks in NPA management.

Further, ARCs face considerable difficulty in transaction consummation because of widely-divergent stamp duty and registration charges from state to state, and procedures adopted at various places even within the same state. When assets are across multiple states, the problems get compounded.

Against the above backdrop, there is now an urgent need to address problems faced by ARCs and to empower them to play effective role in NPA management. Here are 10 steps for improving the functional effectiveness of the ARC sector.

1. Allow ARCs to go public. This will help mobilise funds and ensure greater disclosures and more transparency.
2. Remove the sponsor holding restriction of 50 per cent (excluding where banks are the sponsors and the holdings are capped by the Banking Regulation Act). This will facilitate them to have deep pockets and adequate risk appetite to invest without waiting for a matching contributor.
3. Widen definition of qualified institutional buyers to include high networth individuals.
4. Allow listing of SRs and allow free transferability of these SRs.
5. Issuance of comprehensive guidelines for valuation of NPAs for sale to ARCs. In case of 100 per cent settlement funding in cash, bilateral transactions be permitted without any auction.
6. Unified approach by banks in selling asset under consortium finance. Threshold of 75 per cent for acceptance of any offer made by an ARC in case of consortium/ multiple banking arrangement may be reduced to 60 per cent.
7. Uniform stamp-friendly regime across states.
8. Simplify and rationalise guidelines related to the change of management of defaulting companies and removal of the clause that mandates return of management to the old defaulting management after payment of dues.
9. Thorough review of process efficiency (or lack of it) in debt recovery tribunals / district magistrates in assisting security enforcement and ensuring timely disposal of cases.
10. Constitute a key advisory group with all stakeholders to review the functioning of the ARC sector and suggest time-bound measures. ◆

The author is President, UV ARC, Delhi. Views expressed in the article are personal.

THE VULTURE FUNDS

Globally, companies make billions by even buying distressed country debt, instead of mere corporate debt

Vulture funds are basically private equity or hedge funds with deep understanding of special situations. They buy assets cheap, strip them and even take management control before selling them. They are known as vulture funds as they prey on companies which are in distress, but have the potential for revival and growth.

Globally, players such as Elliott hogged the limelight when, in the mid-90s, they pounced on sovereign debt of the Panamanian government at a hefty 40 per cent discount at $17.5 million. Later, they even took the country to the court seeking full repayment of $27.8 million. The court in New York came down heavily on the government, directing it to make the payment, including an interest of $57 million, to Elliott. The other big players are Cerberus, JP Morgan, DE Shaw, Davidson Kempner I, KKR, Blackstone, Anchorage Capital and Goldman Sachs. The basic strategy of these funds is to buy cheap with the aim of making hefty gains. In India, too, many such funds are making a beginning, though the distressed asset market is yet to evolve due to the country's legal system and also because most companies here are promoter-driven. A few years ago, US-based Apollo Global, a vulture fund, had tied up with ICICI Ventures to set up AION Capital to invest in distressed assets. Blackstone, WL Ross , KKR, DE Shaw, Farallon Capital and Clearwater are also operating in India. Their experience has so far been mixed. UK-based private equity player, 3i, has shut its buyout division. Distressed funds that entered the Indian market after the Lehman crisis have even lost capital. WL Ross & Co, though, has made decent returns in the last 10 years. Hong Kong-based SSG Capital has entered India through the ARC route. The idea was to go for a complete buyout, takeover the management, and revive it. KKR , too, is buying a stake in Mumbai-based IARC.

Vinayak Bahuguna, CEO and MD, ARCIL, says: "Globally, the strategy has been recovery and not restructuring. It means stripping of assets to get back money." With hopes of regulations changing, it is hoped that India will also open floodgates for the vultures to grab their prey.

In cases where an ARC decides to opt for the asset-stripping route without the consent of the promoters, there is lot of resistance. ARCIL has struggled to sell Tulip Star Hotel (erstwhile Centaur near Mumbai's Juhu beach) for many years. The company has successfully challenged the SARFAESI notice of ARCIL in the past. Board for Industrial and Financial Reconstruction (BIFR) is yet another escape route where, after the failure of a corporate debt restructuring (CDR), promoters can immediately approach the board. "Once you take a SARFAESI action, BIFR action gets abated. But practically, it doesn't happen," admits an ARC official.

Many ARC heads say that the legal system is the joker in the pack that spoils the recovery process. Globally, AMCs are set up to resolve NPAs. They have the backing of a judiciary to help in repossession and sale of assets. The reality in the Indian context is that you cannot throw a promoter out of the company. Shah's biggest learning in a short period is: "You cannot be adversarial with banks and promoters. You have to find a win-win deal involving the ARCs, banks and promoters." There are currently 20 lakh recovery cases pending in Lok Adalats, Debt Recovery Tribunals (DRTs) and SARFAESI. According to the RBI, ₹1,73,100 crore worth of money is locked in courts with the recovery record at ₹31,100 crore as on March 31, 2014. (see *Resolution Through Courts*).

The Banker's Guide

Bankers hold a grudge against ARCs that they are unable to turn around the stressed assets despite a lot of flexibility in restructuring a loan. "ARCs have limited financial muscle, which leaves little scope for revival," says the head of a PSU bank. ARCs have spent barely ₹3,400 crore

VIVEK NAIR, Chairman and MD, Hotel Leelaventure

"We have represented to the government for longer term loans for the hotel industry by including existing hotels in the refinancing scheme"

Interview with Rashesh Shah at
businesstoday.in/ARC-shah

to acquire total assets of ₹1.89 lakh crore of book value till date. If all the NPAs do find themselves in the market, that's another ₹3.10 lakh crore which require at least ₹22,500 crore of capital from ARCs by the 15:85 principle. That's the kind of money ARCs do not have today because of various reasons: they are not allowed to go public for now and there is no secondary market for security receipts.

ARCs find it difficult to access funding for basic needs like working capital. The selling banks cannot lend, while non–bank entities, such as private equity, demand 18-20 per cent interest with priority in repayment over existing debt. This leaves the responsibility of a haircut on debt on the capital-starved ARCs. CRISIL points out in its recent study that an ARC had to arrange for working capital for a textile company (name withheld) when banking channels shut their doors on it. Similarly, another ARC arranged funds for a mid-sized developer to complete the project.

There are some who suggest that the ARC game play has changed with a higher initial contribution at 15 per cent for them. "This requires an integrated approach (involving) support from PE firms, distressed funds and turnaround specialists, among others," says Hari Hara Mishra of a Delhi-based ARC.

"There have been a couple of transactions in the recent past where foreign institutions were interested in ARCs. For example, KKR showed interest in International Asset Reconstruction Company (IARC) and Hong Kong-based SSG Capital in Delhi-based ACRE. For global players, investing in ARCs enable them to take an exposure in the growing distressed market and, this may prove to be a win-win for both. "These global investors provide transfer of technical knowledge, information and capabilities, which is going to equip ARCs to handle complex cases. This will also provide access to global network in terms of investments and industry knowledge," says Munesh Khanna, Partner (Corporate Finance) at PWC.

"Foreign capital must come here because ARCs are starved of capital. The track record of ARCs has been abysmal in terms of return on equity," says Vinayak Bhuguna, CEO and Managing Director of ARCIL. The return on equity is barely double digit. So the performance has to go up to attract foreign capital. Currently, the capacity of ARCs to take up more fresh bad loans is also limited because of their low capital base. According to a report on ARC business in India by turnaround specialist Alvarez & Marsal, the current capitalisation of all ARCs put together is around ₹3,000 crore. "With the cash component increased to 15 per cent of acquisition, the net worth of ARCs would be sufficient to acquire only ₹20,000 crore of stressed assets. Assuming ARCs acquire the NPAs at a discounted norm of 60 per cent of the book value, all ARCs put together can garner ₹33,300 crore of NPAs," says the report.

RESOLUTION THROUGH COURTS IS TIME CONSUMING

YEAR	PENDING CASES	RECOVERY
2014	1,73,100	31, 100
2013	1,05,800	23,200
2012	61,100	14,400
2011	50,000	15,700
2010	31,283	7,514

Recovery figures in ₹ crore
(Recovery also relates to cases of earlier years) Source: RBI

CHALLENGES ON THE WAY

Valuation of bad loans is still a problem area. ARCs have more skin in the game with an initial investment of 15% from the earlier 5%

Bulk of ARCs' books comprises written-off assets that are hard to recover

RBI has allowed sale of SMA-2 accounts, but SARFAESI is not applicable

ARCs can't throw out promoters, they have no option but to work with them

Very few cases of ARCs buying the entire debt. Banks still hold debt that makes them party to a company's revival

IT, excise and other authorities claim first rights on priorities over secured creditors

No secondary market for security receipts

Sale of asset to ARCs attracts stamp duty charges in some states

Management fee is now linked to NAV compared to fee on outstanding AUM earlier

Not allowed to raise money from IPO market

THE BAD PENNIES

The following five industries, accounting for 25% of total advances by scheduled commercial banks, were responsible for creating more than half the stressed assets.

SUB-SECTOR		MAR-13	MAR-14	JUN-14	DEC-14
Infrastructure	Share in total advances of SCBs	14.6	14.4	14.8	15
	Share in total stressed advances of SCBs	28.8	29.4	30.7	29.8
Iron & steel	Share in total advances of SCBs	4.9	4.8	4.8	4.5
	Share in total stressed advances of SCBs	8.2	10.8	10.2	10.2
Textiles	Share in total advances of SCBs	3.7	3.5	3.5	3.4
	Share in total stressed advances of SCBs	7.5	7.7	7.2	7.3
Mining	Share in total advances of SCBs	0.7	0.6	0.6	1.3
	Share in total stressed advances of SCBs	0.6	0.9	0.9	1.4
Aviation	Share in total advances of SCBs	0.5	0.5	0.5	0.5
	Share in total stressed advances of SCBs	3.9	3.3	3.1	2.4
TOTAL	Share in total advances of SCBs	**24.4**	**23.9**	**24.2**	**24.8**
	Share in total stressed advances of SCBs	**48.9**	**52**	**52**	**51.1**

Source: RBI; Data in per cent

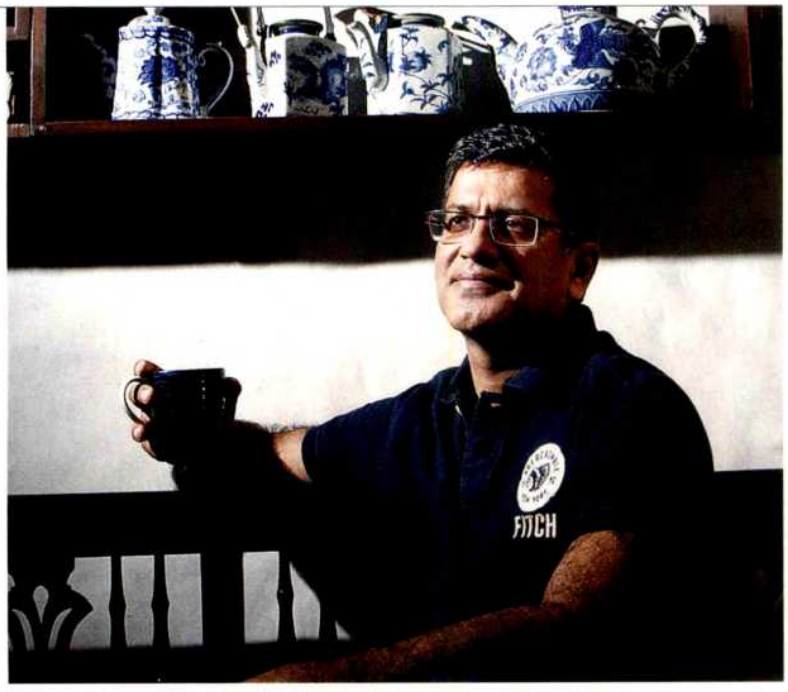
The recent RBI move to allow banks to take 51 per cent equity by converting their debt will be a game changer. "This will work as a threat for defaulters. It will force promoters to come to the table," says Birendra Kumar, Managing Director and CEO at IARC. If that happens, a lot of stressed assets will not reach the ARC stage. Skeptics, however, say banks are not in the business of running a hotel or an airline. "Banks will enjoy a provision arbitrage for 18 months after converting their debt into equity. But after 18 months, they also have to sell the company to investors. If they don't sell, the banks will have to mark to market the value of their equity periodically," says Khanna.

More Gaps to Plug

Either way, there's miles to go before ARCs have sound sleep. One of their biggest bugbear is that banks do not follow a consortium approach of selling and, therefore, ARCs have to resort to a time-consuming process of dealing with each bank separately. Bharati and Hotel Leela are good examples of the consortium approach where SBI took

HARSH PAIS, Partner, Trilegal

"It should be easier to enforce a pledge to sell a company and kick the management out but it is not easy and buyers don't want to get into trouble"



MUNESH KHANNA, PARTNER, CORPORATE FINANCE, PWC

"Global investors can transfer technical knowledge, information and capabilities to equip ARCs to handle complex cases"

a lead, but in most cases, ARCs have to run after individual banks. This process could take as much as 6-12 months. "Big banks like SBI and ICICI, which are in big loans, can take a lead in bringing together all lending banks in a defaulting company," says an ARC official.

Last week, ARCs raised another issue with Union Finance Secretary Hasmukh Adhia – that of joint bidding by ARCs. They suggested joint bidding would spread the risk in a large account. In Hotel Leela, Kotak's Phoenix actually bought a small quantity of loan from a bank, which declined the JM offer because of valuation. Similarly, private equity players should be encouraged to buy stressed assets. Global private equity player KKR has already shown interest in acquiring a controlling stake in IARC. If the deal goes through, IARC will have access to KKR's management bandwidth and its war chest of funds.

Raman Singh of Bank of India, who deals in stressed assets, says ARCs' track record shows a recovery of 10-12 per cent of the book value and 50 per cent of the acquisition cost. This indicates half the SRs are as good as junk.

The outstanding SRs currently stand at close to ₹50,000 crore. And, more will get added along the way. If ARCs succeed, banks will also get their money, which is the objective of promoting specialised ARCs to recover bad loans in the economy. But if they fail to recover loans, it's merely a book entry of transfer of a junk asset from a bank to an ARC. It is in the interest of everybody– the government, the banks, the legal system and the ARCs – to make the system work so that the NPA monster can be tamed. ◆

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GOING AFTER THE ROGUES

SEBI CRACKS THE WHIP ON FOUR COMPANIES THAT SEEM TO HAVE BEEN RIGGING THE SHARE PRICES.

By MAHESH NAYAK

It is not often that one hears about 239 entities and individuals being barred from a stock exchange by the regulator. But this is exactly what the Securities and Exchange Board of India, or SEBI, did on June 29 after its probe found that the Bombay Stock Exchange's (BSE) SME platform was being used to turn unaccounted money into legitimate market gains. The banned entities include four companies at the centre of the alleged fraud – Eco Friendly Food Processing Park, Esteem Bio Organic Food Processing, Channel Nine Entertainment (CNE) and HPC Biosciences. The others include those that were allotted shares by these companies in preferential allotment and pre-IPO placements, and those that funded the purchase of such shares.

TIME TO ACT

How SEBI and exchanges can restore investor confidence

- The SME Exchange needs to work towards bringing in anchor investors, especially institutions
- **The minimum public shareholding could be brought down to 10% from 25%**
- The lot size must be reduced from the current ₹1 lakh to encourage more people to invest
- **Listing guidelines must be same both BSE and NSE;** dual listing (on both BSE and NSE) can also be made mandatory
- Can introduce compulsory safety net

AJAY THAKURI

"The scam will hit the confidence of investors in the exchange, impacting the ability of SMEs to raise funds," says Jay Parikh, Partner, Shardul Amarchand Mangaldas, a law firm. SMEs employ 40 per cent of India's workforce and contribute 45 per cent to its manufacturing output.

"The SME Exchange enables any company that needs capital to raise money, but the difficulty is in bringing in investors. Why would you invest in companies you are not sure about?" says Chirag Jain, Vice President, Merchant Banking Division, Ashika Capital.

A total of 101 companies have so far raised close to ₹1,000 crore on the SME platforms of both the BSE and the National Stock Exchange (NSE). The platforms were launched in 2012 to give small companies access to capital.

The Modus Operandi

The four companies at the centre of the storm were listed on the SME platform of the BSE between January and March 2013. What raised eyebrows, says SEBI's 80-page ban order, was the sharp rise in their shares between January 2013 and December 2014. For instance, Eco Friendly shares rose 6,265 per cent between January 14, 2013, and December 31, 2014. Similarly, Esteem Bio's shares rose 3,150 per cent, while that of Channel Nine and HPC rose 2,882 per cent and 1,782 per cent, respectively, between the middle of January 2013 and December 31, 2014. All this, despite the dip in profit after tax, or PAT, of these companies (See...*As PAT Fell*). Eco Friendly, Esteem Bio and HPC are into cultivation, processing and distribution of agricultural products. Channel Nine is a producer and distributor of television serials, films and events. *BT*'s attempts to contact these companies did not yield any result. Interestingly, Kolkata-based Guiness Corporate Advisors was the lead manager for all these four issues.

Despite their poor financials, these four companies raised funds through a series of preferential allotments to several entities. They also issued bonus shares.

At the IPO stage, says SEBI, a group of entities it calls the Funding Group – linked to entities that got shares in the preferential allotment – financed a big chunk of the offers. The companies collectively raised ₹46.53 crore from their IPOs. Out of this, more than ₹19 crore was provided by the Funding Group. However, instead of using these funds for reasons listed while tapping the primary market, the companies transferred ₹30 crore (more than 50 per cent of the proceeds) to entities of the Funding Group either directly or through layering, says SEBI. Thus, they concealed the diversion of the IPO proceeds from the stated objectives, which is a violation of SEBI's listing rules.

The SEBI order further says that after the shares of these four companies listed on the SME platform, some entities, called the Trading Group, manipulated the price and volume of the four scrips and provided a profitable exit to preferential allottees and pre-IPO transferees.

"The funds required for purchase of shares by the Trading Group entities were provided to them through layering of fund transfers from several entities, including the entities of the Funding Group," it adds.

"The acts and omissions were prima facie for generating fictitious LTCG (long-term capital gains) so as to convert unaccounted income of preferential allottees and pre-IPO

SHARES SOARED...

Little correlation between profits and stock prices alerted SEBI

SCRIP	PERIOD	PRICE RISE
Eco	Jan 14, 2013 to Dec 31, 2014	₹8.64 to ₹550
Esteem	Feb 07, 2013 to Dec 31, 2014	₹16.15 to ₹525
CNE	Mar 12, 2013 to Dec 31, 2014	₹17.60 to ₹525
HPC	Mar 19, 2013 to Dec 31, 2014	₹39.10 to ₹735

... EVEN AS PAT FELL

	ECO		ESTEEM		CNE		HPC	
YEAR	PAT	EPS	PAT	EPS	PAT	EPS	PAT	EPS
2010/11	1.48	2.85	2.14	428.46	0.04	0.9	0.0005	0
2011/12	**1.87**	**3.59**	2.94	98.12	**0.07**	**1.43**	3.05	4.66
2012/13	1.75	2.5	2.55	2.51	0.11	0.14	2.98	3.46
2013/14	**1.35**	**1.36**	1.84	1.23	**0.05**	**0.03**	1.25	0.77

PAT figures in ₹ crore; EPS in ₹; stock prices are adjusted; Source: SEBI

transferees into accounted one with no payment of taxes as LTCG is tax-exempt under Section 10(38) of Income Tax Act, 1961," says the SEBI order.

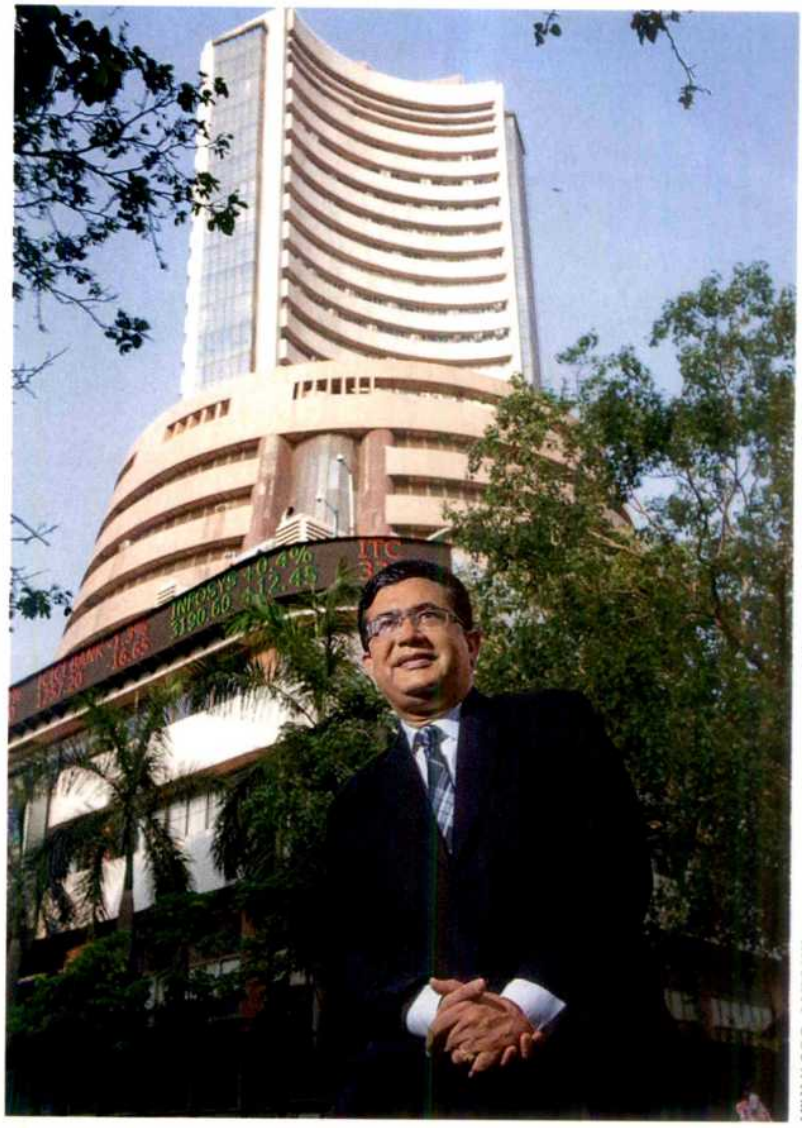
Consequently, the preferential allottees and pre-IPO transferees collectively made a profit of ₹614 crore, it says.

Other Problems

Experts say many companies are using the SME Exchange to enter the main board. "Many companies are using the SME Exchange to get listed as it's a prestigious thing and enhances their valuations," says Saurabh Agarwal, Director at Kennis Financial Services, a Mumbai-based wealth management company.

Take Anshu's Clothing. It listed on the BSE SME platform in October 2012 after raising ₹5.05 crore. It graduated to the main board in just two-and-a-half years. What raises eyebrows is that the money was raised to give long-term advances, which is not a usual practice in the apparel business. Further, when it hit the market, it had a profit of ₹50 lakh in 2011/12. This fell to ₹2 lakh in 2013/14. The company switched to the main board even as the stock shed 50 per cent of its value. The BSE Sensex rose 50 per cent during the period. Interestingly, after its entry on the main board, the company has posted a loss of ₹21 lakh on a revenue of ₹38 lakh in 2014/15. Indeed, it's easier to get listed on the main board via the SME Exchange route. Any company that wants to be listed on the main board must have posted a pre-tax profit of ₹15 crore on an average for at least three years. If not, 75 per cent issue must be subscribed by qualified institutional buyers. But a company listed on the SME platform can migrate to the main board after two years if its paid-up capital is ₹10 crore or more.

If it had not been listed on the SME Exchange, given its financials, Anshu's Clothing would have never made it to the main board under SEBI regulations. An email to the company did not elicit any response.



RACHIT GOSWAMI

ASHISH CHAUHAN
MD & CEO, BSE

"If the regulator finds a discrepancy, it should take stringent action against the guilty"

Restoring Trust

Experts say misuse of the SME Exchange shows that there is a need to make systems more robust.

"The LTCG game also happens in companies listed on the main board. For that one cannot hold the whole exchange as faulty. There must be checks and balances. One way to check misuse is to broad-base participation by mandating anchor in-

vestors," says Mahavir Lunawat, Managing Director, Pantomath Advisory Services, a Mumbai-based financial services firm.

Companies with sizeable investments from institutions have given stable and steady returns. For instance, Ashapura Intimates, with substantial investment from Small Industries Development Bank of India (SIDBI), or SI VI Shipping, in which Edelweiss has picked up a stake, have given decent returns with much less volatility. "Participation from big banks can make a big difference. They will bring quality companies which will give confidence," says Ravi Varanasi, Chief, Business Development, NSE.

Another way to widen the investor base could be by integrating the markets and making it mandatory for the SMEs to list on both the BSE and the NSE.

SAURABH AGARWAL
Director, Kennis Financial Services

"Many companies are using the SME Exchange to get listed as it's a prestigious thing"

Exchanges have already taken steps to improve credibility of their SME platforms. The NSE, for instance, asks CRISIL to evaluate companies before taking them on board. "We verify each company through a credit rating agency," says Varanasi. So far, the NSE has allowed only manufacturing companies on its SME platform. It has stayed away from financial companies. The NSE also uses quantitative factors to analyse companies before listing them on its SME platform and not just qualitative ones.

"If some companies or merchant bankers are indulging in unfair practices, they should be thrown out," says BSE Managing Director Ashish Chauhan, adding that if the regulator finds irregularities, it should take stringent action against the guilty.

The BSE recently changed the SME listing norms by raising the paid-up capital requirement after the IPO from ₹1 crore to ₹3 crore as well as mandating a minimum net worth of ₹3 crore as against the previous requirement of ₹1 crore.

SEBI, which has kept retail and small participants away from the SME Exchange by mandating strict entry norms, must also get its act together. "Lower trade size after listing and lower underwriting levels are the need of the hour. These will increase liquidity and encourage more stakeholders to look at the SME Exchange," says Pantomath's Lunawat, who feels that the minimum public shareholding in SMEs should be lowered from 25 to 10 per cent.

There is often a mismatch between the valuations of SMEs and their funding needs. "We are dealing with various SMEs whose valuation is, say, ₹40 crore to ₹50 crore for a 25 per cent stake, while their requirement is 50 per cent of this or lower," says Lunawat. "SEBI needs to ensure that the public float of 25 per cent will be ensured before the SME migrates to the main board," he says (see *Time to Act*).

Chauhan's focus is on bringing more companies to the BSE SME platform. "My vision is aligned with that of the Prime Minister, to give SMEs access to capital markets so that their growth is not restricted due to unavailability of capital. SMEs are key to job creation."

SEBI, exchanges and institutional players, such as SIDBI, conduct seminars each month to encourage SMEs to tap capital markets, but there is not enough focus on quality.

"It's important that the exchange generates credibility and visibility for the SME so that it also gets access to bank funds," sums up Samir Bhatia, founder and CEO of *SMECorner.com*, an online platform that helps SMEs get loans. ◆

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INDIA TODAY
TELEVISION

Conquering The *English* Channel

AJAY THAKURI

Hollywood blockbusters and English entertainment channels are the new cash cows. By AJITA SHASHIDHAR

When the Paul Walker, Dwayne Johnson and Vin Diesel starrer, *Fast & Furious 7* hit the Indian screens in April this year with an adult certification from the Indian censor board, it left teenagers across the country immensely disappointed. However, what came as a big surprise to everyone is that this 'adults only' certified film went on to become the first ₹100 crore grossing Hollywood film in India. The earlier version of the film had raked in a revenue of just over ₹50 crore.

With Internet penetration increasing, smartphones and tablets becoming a way of life, there are no second thoughts that the average Indian is far more exposed to global content than even five years ago. In fact, 2015 is clearly a landmark year for Hollywood blockbusters in India. Soon after *Fast & Furious 7*, *Avengers 2* and *Jurassic World* were released and both of them have grossed revenue upwards of ₹100 crore.

In fact, *Jurassic World*'s box office collection in the first week itself was ₹50 crore, which is at par with the kind of revenues that a Bollywood A-list film like *Happy New Year* or *Kick* generated in the first week of release. "We are releasing big tentpole Hollywood films even before they are released in the US," says Amrita Pandey, Vice President and Head (Marketing and Distribution Studios), Disney India. The studio released *Avengers 2* in India in May this year.

In a country of 1.2 billion, over 210 million speak and consume content in English. This number is expected to grow to 250 million in the next couple of years. The English speaking population is 10 times higher than a decade ago, when it was about 25 million. "Therefore, English entertainment is becoming increasingly important for not just the studios but also the broadcasters," says Sudhanshu Vats, CEO, Viacom 18. The entertainment company, which already has a bouquet of English Entertainment channels, such as Comedy Central and VH1, has recently launched its English general entertainment channel, Colors Infinity. Its studio arm would be shortly releasing *Mission Impossible* in India.

While the likes of Disney are hugely focused on marketing their Hollywood releases in the Hindi speaking and vernacular markets where they dub the film in local languages, Universal Pictures, which released *Fast & Furious 7* and *Jurassic World* in India, has changed its distribution strategy.

The studio, weeks before the release of *Fast & Furious 7*, decided to move away from the Motion Pictures Association norm of releasing films only on 2K platforms (a digital technology which is mostly offered by large multiplex chains in India), and released it on non-2K digital platforms also. "One of the reason for this norm was security and quality issues. Markets across the world changed to 2K, but India didn't do as extensively. We got only 2,000 screens as per 2K standards. In non-2K there are over 6,000 screens," points out Sarabjit Singh, General Manager, NBCUniversal.

By releasing the film on non-2K platforms, especially in the Tier-II and III cities, the studio was able to release the film on an additional 800 screens. The film generated an incremental 20 per cent revenue. In fact, over 40 per cent of the revenues of *Fast & Furious 7* and *Jurassic World*, came from Tier-II markets.

RACHIT GOSWAMI

"English entertainment is becoming important for not just the studios but also the broadcasters"

SUDHANSHU VATS, CEO, Viacom 18

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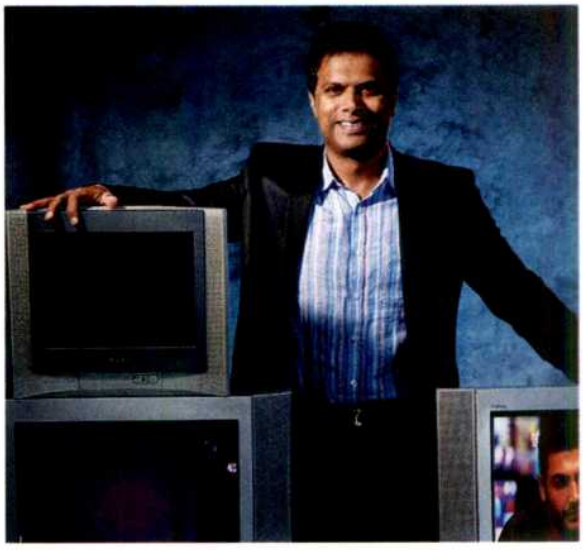
Interview with Sarabjit Singh at businesstoday.in/universal-singh

"For the first time Hollywood films gave us such handsome returns," agrees Ashish Bhandari, Co-Founder and Joint Managing Director of United Media Works, a non-2K digital distributor in several Indian states.

All the studios are marketing their films just the way they market Bollywood films. For *Avengers*, says Pandey, Disney created life-size figurines of the characters and did a spate of promotional activities across cities, apart from advertising on leading Hindi and vernacular TV channels and newspapers. "We marketed the film like a Hindi blockbuster and we also did cross promotions. For instance, we launched the ABCD2 trailer during the *Avengers* screening."

The advertising and promotion budget of most big Bollywood films is in the region of ₹10 crore. Pandey of Disney says that promotional spends for Hollywood releases is rising though they are not as much as Bollywood films.



NISHIKANT GAMRE

"Digitisation has enabled us to offer a wider range of channels [even] in smaller markets"

M.K. ANAND, CEO, Times Network

Action Pays

Why didn't a Hindi film like *Dil Dhadakne Do* not do as well in a market like Kanpur or Indore as a *Fast & Furious* or *Avengers?* The unanimous opinion is that action films always do well in small town India. "Action is language agnostic," points out Vats of Viacom 18.

Singh of Universal Studios agrees that Hollywood action films do have takers in Tier-II and III markets because of their high quality special effects. "We may not embark upon such a widespread distribution strategy when we release a film which is non-action," he says.

English Broadcast

The viewership of English channels has soared by over 30 per cent in the last one year. According to Navin Khemka, Managing Partner at Group M's media agency, Maxus, there is a 43 per cent jump in commercial time sold on English general entertainment channels and a 15 per cent increase on English movie channels.

In fact, M.K. Anand, CEO, Times Network, claims that the ad price of his channels, Movies Now and Romedy Now, have gone up by 50 per cent in the last one year. "HD channels are giving advertisers an effective way to reach out to segmented high end audiences. Also, latest content is being aired at the same time as the West and that is also drawing viewers," explains Khemka.

No wonder, most big broadcasters are launching their second or third English channels. The last couple of weeks has seen the launch of three new channels – two of them are movie channels, Star Movies Select and MN+, and the general entertainment channel Colors Infinity.

The major trigger for the growth in viewership is obviously digitisation. "Digitisation has enabled us to offer a wider range of channels not only in the traditional English footprint of one million plus metros, but also in smaller markets which has a sizeable English viewing population," says Anand of Times Network. He says that his network, in the last year-and-half, has made its channels available in 1,400 digital networks as opposed to 250 earlier. "The viewership of our channels was just eight to 10 per cent, today, it's over 22 per cent," says Anand.

Vats of Viacom 18 says that English channels contribute about five per cent to his company's overall revenue of ₹2,000-odd crore, which he expects to increase to at least 10 per cent in the next three to four years.

He is hopeful that the English genre will make a giant leap once digitisation is rolled out completely. "Once packaging happens the discovery of people wanting to consume the English genre will go up drastically."

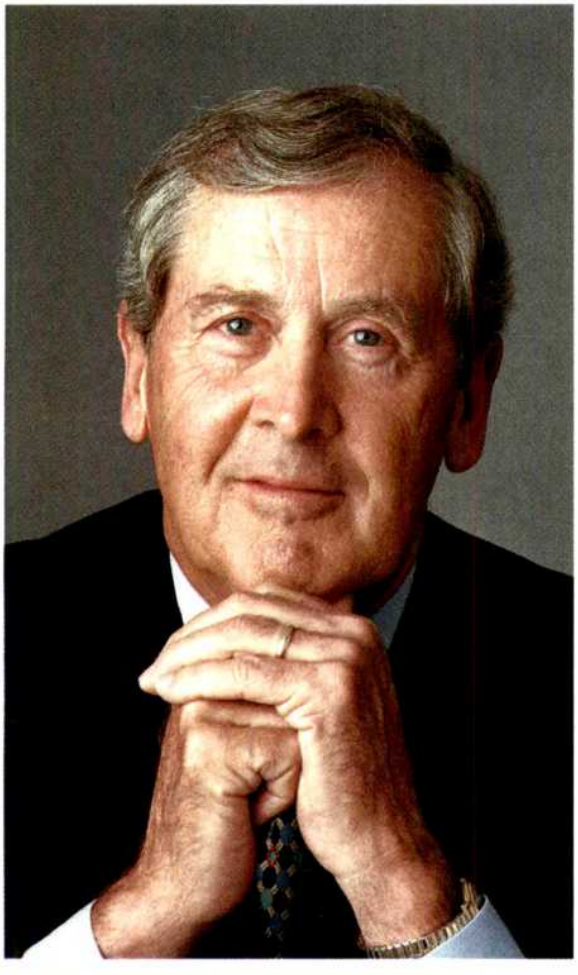
English entertainment has for sure reached an inflexion point in India. Be it TV shows such as the *Game Of Thrones* and *Two and a Half Men* or films such as *Avengers* and *Transformers*, there are enough takers. But we are still some distancee away from markets like China, where Terminator raked in $250 million, which was higher than what it garnered even in the US. The stumbling block here is nothing but infrastructure. India has 13,000-odd screens for a population of 1.2 billion. There are hardly 12 screens for every one million people. In contrast, the US has 120 screens per million people.

Clearly, the demand for English entertainment in India is set to jump exponentially in the days ahead. ◆

@AjitaShashidhar

Staying Ahead in the Age of Competition

Marketing strategist **Jack Trout** *says that paranoia is essential for business success in a highly competitive world. He shares tips on dealing with competition with* **Chitra Narayanan** *in this exclusive interview*



Is it really the age of competition or is it the age of alliances? We have seen unlikely partnerships being formed by business rivals to stay ahead today. Would you advice collaboration rather than competition?

It is, indeed, the age of competition, not alliances. Alliances tend not to work over the long haul since each partner has different needs and agendas. Consider the Hero Honda alliance, which was the dominant motorcycle brand in India. But when Hero wanted to move to export, Honda declared that unacceptable as they were already a dominant global brand. The result was a divorce and Honda is now a major competitor to Hero in India. Interestingly, Bajaj, the number three player in motorcycles, now has two tough competitors, rather than one. Their obvious move is to shift their focus away from commuter to sport motorcycles where they have a strong advantage, having pioneered the category.

Quite a few business leaders believe in keeping an eye on the customer rather than on the competition. After all the customer is changing faster than competition? Is that the right strategy?

Customer orientation is necessary but not enough as all the company's competitors are customer-oriented or they will not survive. This is why competitor orientation is critical to survival as you must differentiate yourself from your competitors. Without

Jack Trout, President of Trout & Partners, is the originator of 'positioning' and other important concepts in marketing strategy

differentiation, all you have is 'price' as a tool.

In India, Kirloskar's agricultural pump sets is an example. Their problem was Chinese pump sets that were selling on price. Kirloskar had to differentiate its sets as more reliable, thus lasting longer as compared to Chinese pump sets. It was a case of providing the consumer evidence of the greater value of the product. The beauty of this longevity strategy was that the Chinese pumps have not been operating in China anywhere near as long as Kirloskar pumps. This gave Kirloskar a built-in advantage when discussing time in operation.

In the age of competition, you avoid your competitor's strength and attack at weakness. Strategic planning will become more and more important. Companies will have to learn how to attack and to flank their competition, how to defend their positions, and how and when to wage guerrilla warfare. They will need better intelligence on how to anticipate competitive moves.

Is the digital economy rewriting the rules of competition?

In some categories, the answer is yes. Retail is an example. People can go online to order as opposed to having to go to a store. And with the likes of Amazon in the US or Alibaba in China, these companies have become giant retailers that have, indeed, rewritten the rules of competition. But not everything can be ordered online, especially where there is service or customisation involved. An example in the retail world is Nordstrom, a department store that has made service the cornerstone of their strategy. They have been less affected by the online retailers.

Today, the competition is fragmented – may not even be from within the same industry but come from somewhere else. How can a company watch out for the unexpected?

The key to the unexpected is to stay nervous. Paranoia is critical to success. What I mean is that constant diligence is necessary in a competitive world. Everyone is after everyone's business, so a good worrier is a good marketer.

The biggest mistakes I've witnessed are companies that didn't take their competitors seriously until it was too late. The level of competition in today's world is exceptional and only getting better. It is truly the survival of the fittest.

If your competitor is smaller than you, you should move against your competitor as soon as you can so that they cannot develop momentum

What people have to realise is that flexibility is a necessary mindset if you want to succeed. You can't predict the future so you must be ready to adapt.

What are your tips for dealing with and staying ahead of the competition?

If your competitor is smaller than you, you should move against your competitor as soon as you can so that they cannot develop momentum. General Motors hung back when the Germans and Japanese cars invaded the US market with small cars. They felt they could not make money on this type of car so they rationalised their position by convincing themselves that Americans wanted big comfortable cards. We know they were wrong.

Whilst if your competitor is bigger than you, the best strategy is to sneak up and never appear to be threatening. Southwest Airlines began with their service only in Texas, and non-hub airports. It then moved to the West Coast, spread to the Midwest and worked its way to the East Coast of the US – it maintained some real differences from its competitors that kept his cost down and today has kicked many butts!

There are times when it advisable to 'shift the battlefield', i.e., to shift the efforts to a place where you can take better advantage on your strengths.

Another key to staying ahead of competitors is 'new and improved'. You can't just sit there and become a target. No other company in the history of marketing can match Gillette's efforts in the razor blade world. They are constantly adding blades and features to products that often replace existing products in which they have invested heavily. Today they have over 60 per cent of the razor blade business, a number they have held for decades. They also have very few competitors because most have discovered that taking on Gillette can be costly and not very productive. If there were a competitive hall of fame, Gillette would be at the top of the list. ◆

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What's Appening?

Move over gaming. Indians are increasingly using apps for shopping, reading and photo editing, and this trend has deep implications for advertisers.

By CHITRA NARAYANAN

When at home, Samridhi Sharma, 19, is always curled up in a corner with her Android smartphone, either snapchatting away or browsing through e-commerce apps. Photos are a big part of her phone usage. But every single picture clicked is airbrushed with Photo Editor or other similar apps. A heavy shopper on the mobile phone, she has half a dozen e-commerce apps, a mobile wallet and cab aggregator apps. She changes her phone's wallpaper literally every week and has installed a launcher app to customise the look of her device, and introduce shortcuts.

The growth in the use of personalisation apps (custom lock screens, launchers,) is a significant trend in the way Indians use apps. Even as gaming still remains the number one app activity globally as well as in India, the big story is how users in Asia and India are shifting from apps for entertainment and gaming to more utility and productivity-oriented ones such as Battery Doctor, Clean Mate, shopping apps, personalisation, travel, news and reading apps.

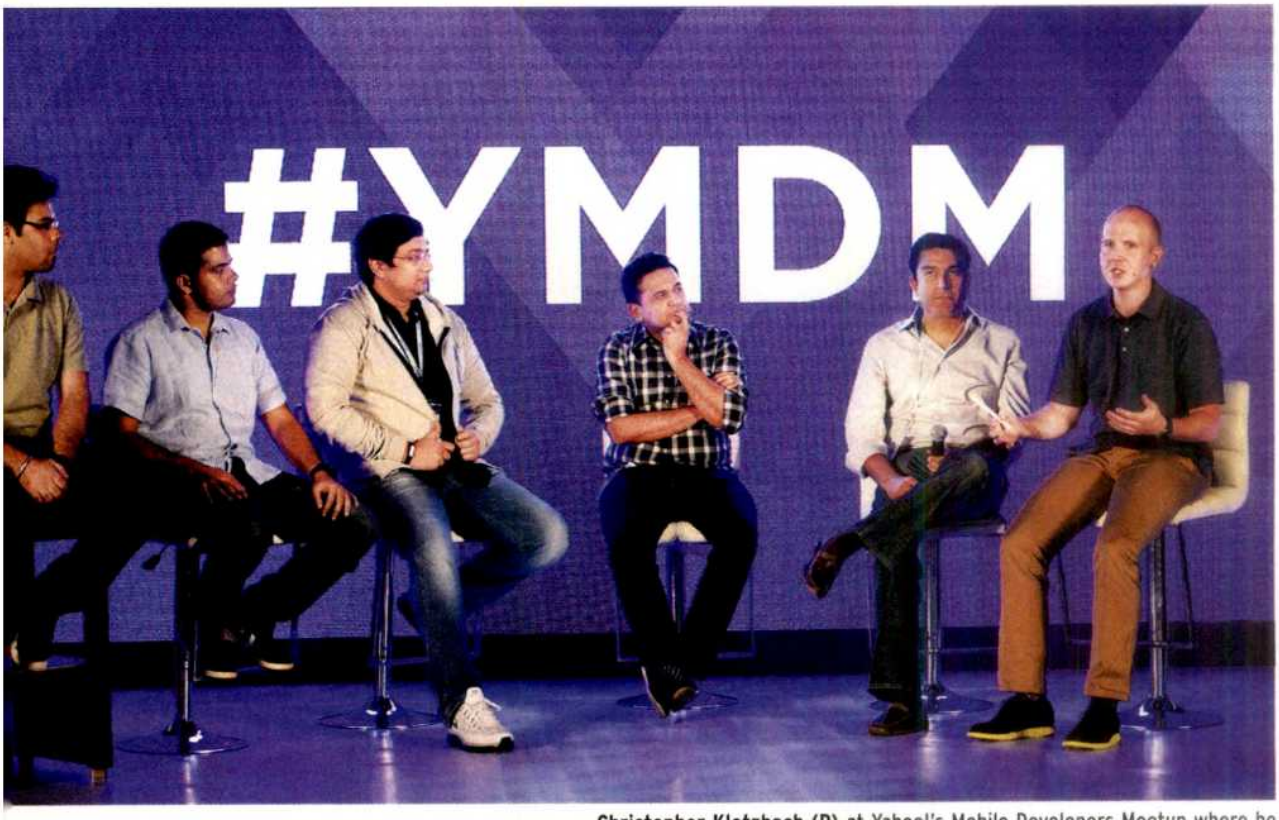
"We work mostly on utility apps centred around photo/audio/video. The offtake in that space closely tracks the growth of smartphone penetration in the country," says Rohit Bhatt, CEO and MD of Robosoft Technologies, a mobile app developer that also has gaming apps like Spell Up, a word game, and Star Chef, a cookery and restaurant management game. According to a Cisco report, there are over 140 million smartphones in the country and over two million tablets. The report projects that smartphones will touch 651 million by 2019 in India.

A Story of Diversification

"We believe that Asia is really shifting the diversification of app use and expanding usage across board," says Christopher Klotzbach, Head of Product Marketing at Flurry, a mobile analytics company now owned by Yahoo! He describes how photo editing apps such as Makeup Plus or Beauty Cam are very popular in Asia and says, "We are starting to see users in India drive growth there in terms of sessions use."

The growth of photo editing apps are of course linked to social media and the way pictures are increasingly shared over messaging applications. "You always want to look best in the photos you send to your friends and mobile users have the ability to edit photos in apps in a very easy and convenient way," says Klotzbach.

Even as photo editing apps record good growth, shopping is a huge category, in terms of time spent, in Asia. "It is second only to gaming.



Christopher Klotzbach (R) at Yahoo!'s Mobile Developers Meetup where he shared his company Flurry's research on how the world and Indians use apps

Nineteen per cent of users' time spent in Asia is on shopping applications. And, we firmly believe that India has a huge stake in that," says Klotzbach.

Those stats – based on a usage survey that Flurry did of 42,000 apps in 82 million devices in India – must be sweet music to the ears of players like Myntra that have gone mobile app only, and Flipkart, which reports suggest will go the same route soon. "India is early to the game of shopping through apps," says Klotzbach, predicting that we will see a bigger shift in the days ahead to mobile app commerce. "In the US, two-thirds of the users prefer apps over browsers," he says.

But even sweeter news for those investing in apps is the way overall app usage in India has grown. "Overall, in terms of app sessions (every time somebody opens an application), India grew year over year by 131 per cent, outpacing Asia and the rest of the world, which is pretty remarkable, says Klotzbach. "We are seeing huge engagement and huge growth in India."

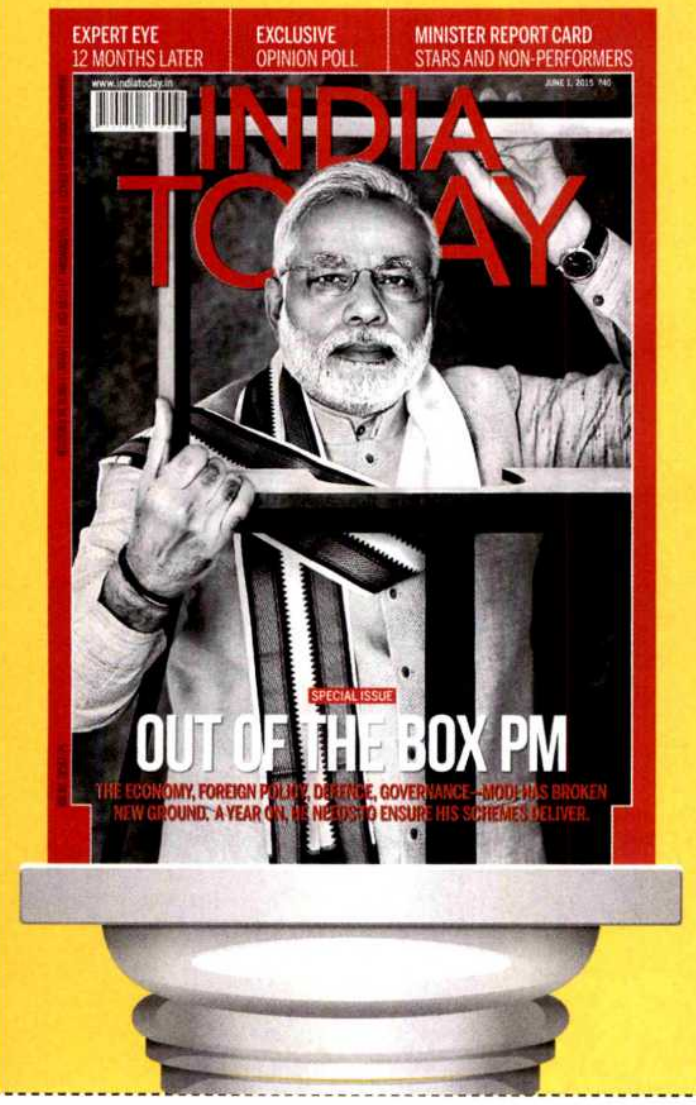
Klotzbach was here to host Yahoo!'s first-ever Mobile Developers Meetup in India and share Flurry's research on how the world and Indians use apps. For the app developers it must have been heartening to hear that 2014 marked the first year that users' time spent on mobile eclipsed the daily time spent on TV. "Users are picking up applications over a hundred times a day," says Klotzbach, pointing out how from an advertising perspective it's now an absolute imperative for brands to shift their dollars into mobile apps.

Already that trend is visible. Market research firm eMarketer predicts in-app advertising will grow 10 per cent faster on average than mobile web. By year-end, the app economy is expected to generate $21 billion through advertising. By contrast, only $7.93 billion would be spent by advertisers on mobile browsers.

Sanjeev Jasani, Head of Digital at

"India is early to the game of shopping through apps... We are seeing huge engagement and huge growth (in terms of app sessions)"

CHRISTOPHER KLOTZBACH, Head of Product Marketing, Flurry



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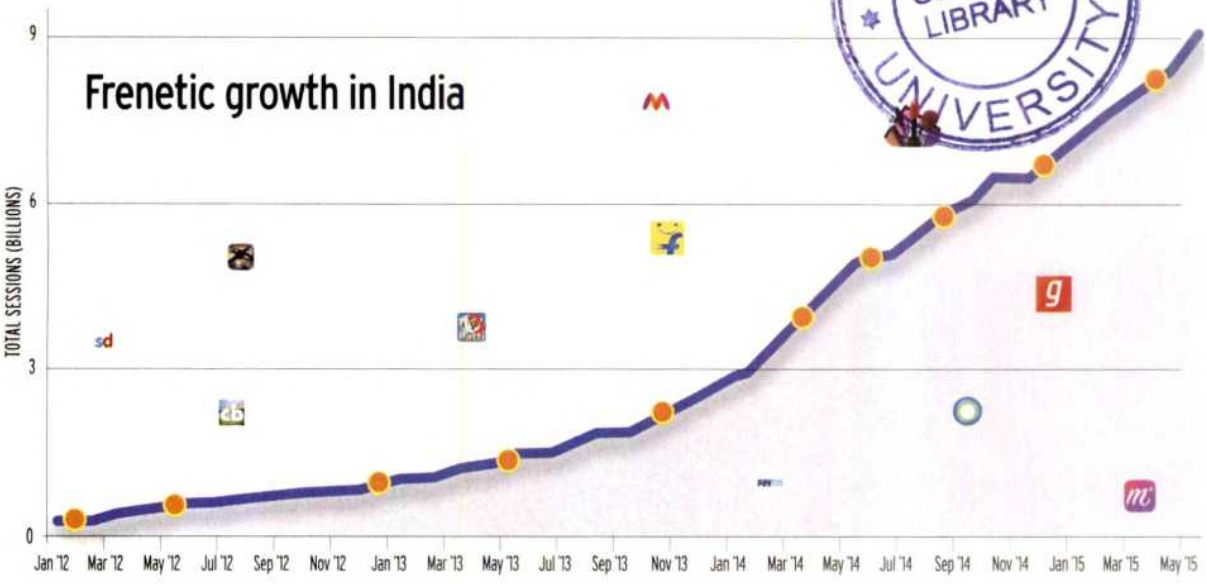
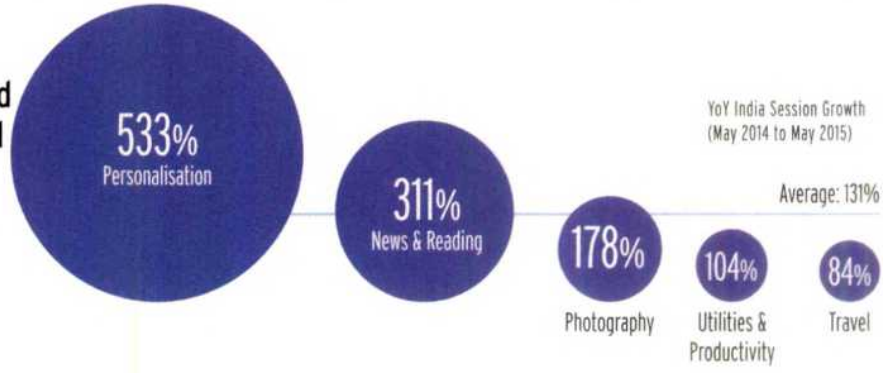


Personalisation, News & Reading, Photography lead India's app growth; overall growth outpacing Asia

Source: Flurry Analytics



ad agency Cheil India, says although advertisers are only scratching the surface of apps today, the space will evolve and he's personally excited about it. "Mobile landing pages will move from plain old URLs to deep links within apps. The game will shift from app-installs to app-engagement and these will be because of the in-app growth," he predicts. "You will see more native, interstitial and take-over ads with interactive and experiential content," he says.

Going Native

"I think users engage 65 per cent more in native ads than they do on standard display units," says Klotzbach. Advertisers have also got a big response from video ads in gaming apps. "Video isn't a great format for gaming applications, but, during a break in a game, or a level break, app developers often put video ads and they've seen success," says Klotzbach.

Games are still a big medium for brands as, surprisingly, mobile users are not averse to paying to progress in a game. "Our games are all freemium (free to download) but the user has to make purchases within the game if he wants to speed up the progress, buy items that will make his game persona look better compared to other players. Compared to the rest of the world, the monetisation of games in India is mostly via advertisements displayed within the game," says Bhatt of Robosoft Technologies, pointing out that according to Chartboost (an ad network), the Indian market was the second-fastest growing market in the world, in terms of total time spent on games.

But for Klotzbach, it's the rate of growth being witnessed on non-gaming apps that is more fascinating. "Between Q1 of 2014 and Q3 of 2014 time spent on mid to long tail apps grew by 21 per cent. Time spent in the top 25 apps grew by only one per cent. So, we are seeing apps that are proving different services than your traditional top 25 gaming and social apps really driving the growth of app usage in India and Asia," he says.

The implications of growing app usage are enormous for marketers. It could potentially impact email marketing too. Increasingly as e-commerce players shift to mobile apps, notification marketing could become more prevalent. Smart players are already moving into this space.

For marketers, it's time to take note of these trends and app-ly in their playbooks. ◆

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Coming of Age

E-COMMERCE COMPANIES ARE WAKING UP TO THE NEED FOR SENIOR TALENT IN THEIR FOLD.

By SHAMNI PANDE

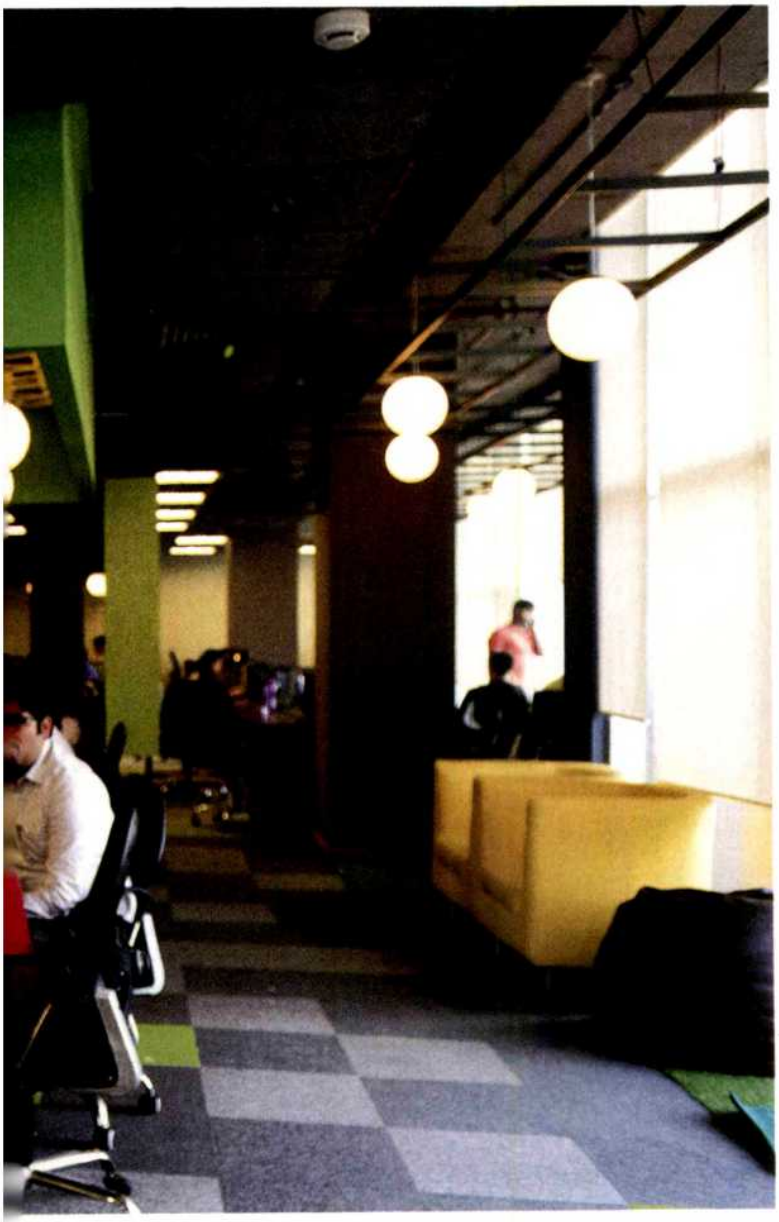
Peeyush Bansal, 32-year-old founder of online eyewear portal Lenskart, believes that errors of judgement can be minimised with the induction of experienced hands into the ranks

MAKING EXPERIENCE COUNT

At least **five per cent of the top leadership team** of e-commerce companies is above 38 years of age

Most have at least **two decades** of experience

These seasoned hands bring in **systems and processes**



VIVAN MEHRA

India has been waking up every morning to headlines on the madcap antics of 26-year-old Rahul Yadav, the controversial founder of Housing.com. Be it the rude letter to his investors, the bizarre distribution of his personal equity to all his staffers or a foolish prank on the media culminating in his very public sacking, it's a circus out there.

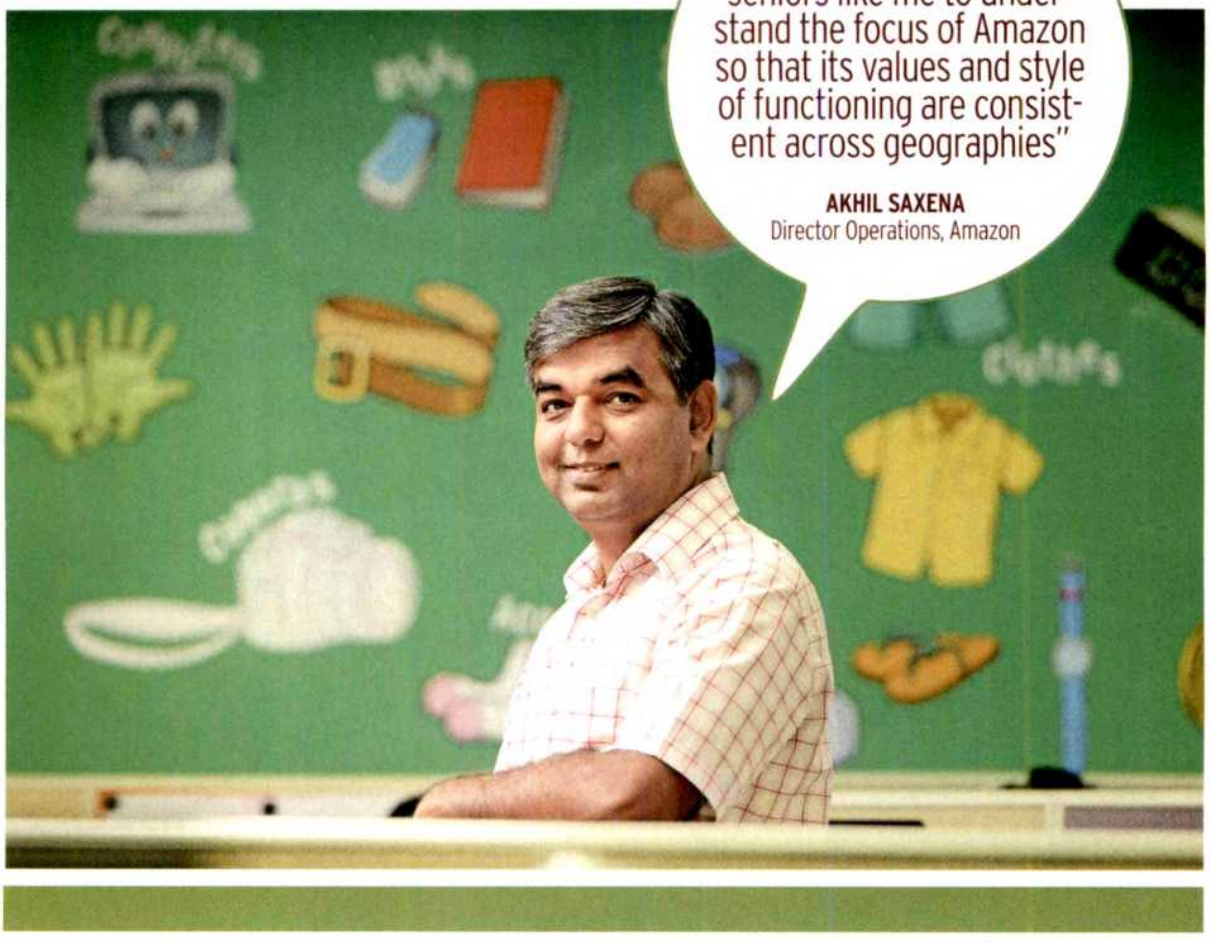
Was it immaturity playing out? Was it an inability to handle pressures of scaling up so quickly and keeping his venture capitalists happy? Or was it mere whimsicality?

Haresh Chawla, Partner at India Value Fund Advisors, in a moving account of the Yadav saga believes it was the lack of an experienced senior that led to his fall. "No one asked them to pause, to review, to reflect... He had no mentor in the group," he writes, sounding a warning to all 20-something start-up founders on the importance of creating management strength they can lean on.

While the Yadav saga is an extreme example, there are other smaller examples as well. Take the way Indian online eyewear portal Lenskart tried to ride on the Nepal earthquake with an SMS promotion, 'Shake it off like the earthquake' for a discount offer. The company got pilloried for putting out an ad in poor taste. It was just the kind of mistake that any seasoned industry professional would have guarded against.

Peyush Bansal, the 32-year-old founder of Lenskart, quickly responded with an earnest apology but this incident has taught him a new lesson – he now recognises the need for senior talent in his young organisation. "Yes, of course," he says, ac-

But experience comes at a price. Salary ranges in the **₹2 crore to ₹7 crore** per annum bracket (usually includes stock options)



NILOTPAL BARUAH

knowledging that such oversights can be controlled through the induction of experienced hands. They (start-ups) require long-term strategic thinking, which sometimes comes with exposure and experience of having lived through multiple situations," says Manish Bhatt, Founder-Director, Scarecrow, an ad agency.

The brave young world of start-ups is suddenly realising the need for a few grey hairs and throwing open its doors to experienced seniors. "Tenured talent is being sought after by e-commerce players. They bring in specific knowledge and experience relating to products, platforms, processes, systems or technology along with a specific functional capability especially involved in scaling up operations," say Pallavi Kathuria, Partner at Egon Zehnder, a leadership talent search firm.

Aparna Chopra, who has joined Lenskart very recently as VP, Strategic Initiatives, has no illusions about her key responsibility area (KRA) at the eyewear portal. "I'd say my experience is the most valuable thing I can bring to an organisation," says the well travelled executive, referring to her 17-year association with MNCs such as Nestle, Starbucks and Costa Coffee. "In a young start-up, one often tends to overlook building a solid foundation due to the dizzying speed at which growth takes place. However, I'm in a position to enforce a strategic view and make sure that the bigger picture is taken into account," she says.

Be it Flipkart, Snapdeal or Amazon, everyone's now hiring senior talent in droves. Snapdeal has recently recruited Amit Choudhary from Procter & Gamble (P&G) as its Senior VP, Corporate Finance. Choudhary was spearheading the MNC's Asia pet care business across several countries, including Japan and Australia. Srinivas Murthy, Senior VP, Marketing at Snapdeal, was with pharma giant GlaxoSmithKline in his previous assignment. Murthy was the regional director in Africa. Snapdeal's new Senior VP, Finance, Vivek Patankar was earlier based at Unilever's London Office, in charge of the consumer goods company's entire global business. "With the rapid growth in the e-commerce industry, it is imperative to look at people who are self-driven and have risk-taking abilities," says Saurabh Nigam, VP, HR, Snapdeal. "As e-commerce is essentially a complex business model that requires continuous company reinvention, we are looking at a talent

pool with dynamic skill sets."

But with the growing presence of senior talent in their ranks, the workplace dynamics and culture at ecommerce companies is now changing. No longer is it young and whimsical.

New Character

Induction of senior people often changes an organisation's culture or character, according to Kartik Hosanagar, Professor of Internet Commerce at The Wharton School of the University of Pennsylvania. "In young start-ups, founders often call the shots and there is no expectation of consistency. Individual whims may dominate over processes."

"We find that senior people are questioning our style of operations and are creating processes that make logical and business sense," says a 24-year-old employee of one of the top three e-commerce companies in India. "Earlier, we would blindly do things that were suggested without a thought to the impact."

For the seniors now walking into a young workplace, the ability to carry the entire team along is crucial. Some e-commerce companies – such as Amazon – even give them a crash course on the organisational philosophy and goals. It is intended to ensure their smooth integration into the team. Consider the example of Akhil Saxena, who joined Amazon in July 2013 as Director Operations. "Here we are obsessive about customer focus and satisfaction. Any action is taken by keeping that in mind and catering to that need. Hence, it was important for me to take that time and understand the focus of Amazon so its values and style of functioning is consistent across geographies," he says. The end result – he has managed to deliver with speed and effiiciency and also ensure that the entire team works together with him on projects. "When I joined, there was only one fulfillment centre (warehouse), and in 14 months I was able to launch 11 centres," says Saxena.

Saxena's over two-decade experience at Hindustan Unilever and KEC in operations has served him well in his current role at Amazon. But, above all, he believes that his substantial experience in mentoring the young has played a pivotal role in his success. "I am comfortable with high quality and young talent, and have been a coach and mentor to many young leaders and trainees," he says.

Others also point out that e-commerce companies need a mentoring process for its young talent. "We realise that we cannot grow only on the basis of the high energy of 20-somethings. At the end of the day, they are young and are really are not in a position to create processes that are required to manage fast growth," says Swati Bhargava, the 32-year-old founder of CashKaro.com, an online cashback and coupon company.

No Longer Flat

So, what is clearly going out of the window is a flat organisation that was really at the heart of most of these young companies. "That does not work. Fact is people in their mid-to-late 30s are likely to be married and have kids. This makes them more settled and, in addition, they bring in valuable domain experience," says Bhargava. Yes, there is the critical bit about the comfort of investors too. They would surely be worried about an organisation that is run only by people in their 20s. And there is nothing better than getting a former entrepreneur or a professional to shake things up. "This is not something new, even I was sought for skills as an entrepreneur," says Subrata Mitra of Accel Partners, a venture capital fund, who was an early investor in Flipkart and is now on its board.

There are examples galore of e-commerce companies poaching senior talent. Consultancies and consumer goods companies are the favourite hunting grounds. Recently, Flipkart hired former McKinsey director Saikiran Krishnamurthy as Chief Operating Officer of its commerce di-

MOVERS AND SHAKERS

A number of high-profile seasoned hands are shifting to e-commerce companies

Abhijeet Muzumdar has joined Amazon India as its head of corporate development and private investments. He was the vice president of a global VC firm, Bessemer Venture Partners

Pratik Seal is now the Chief Marketing Officer at Housing.com. He was the business head at Star India

Punit Soni has crossed over to Flipkart as its Chief Product Officer. He was product management executive at Google

Saikiran Krishnamurthy has been recruited by Flipkart as Chief Operating Officer (COO) of its commerce division. He was partner at McKinsey & Co.

Vikram Raizada has joined Amazon as one of the category directors. He was the CEO (Retail) at Tara Jewels

Jeyandran Venugopal has been brought on board by Snapdeal to map out its future technology roadmap. Venugopal was previously with Yahoo! India

vision. Paytm has taken on board Nehul Malhotra, Head of Merchant Operations at McKinsey, as the digital payments company continues to forge ahead in mobile commerce.

Organisational Stress

Yet, this kind of recruitment policy is mixing up the age profiles, where the tenured talent is even older than the founders. It is not only changing the work dynamics and the work culture, but also leading to organisational stress.

Ritesh Agarwal, Founder and CEO of OYO Rooms, candidly speaks about the impact of the induction of senior talent. "Of course, it is not easy dealing with people who are smarter than you," says this 21-year-old, who set up his budget hotel aggregator when he was just 19. The company has recently brought on board Abhinav Sinha from the Boston Consulting Group. It has recruited Ayush Mathur (earlier with Parthenon Consulting) to head Delhi operations and, among others, Shreerang Godbole from McKinsey & Co. to run Mumbai operations.

"Fact is that founders are control freaks and they think they know it best. So, it is very stressful learning to back off and trust senior colleagues. You have to learn to give them space and autonomy, and also earn their respect," says Agarwal.

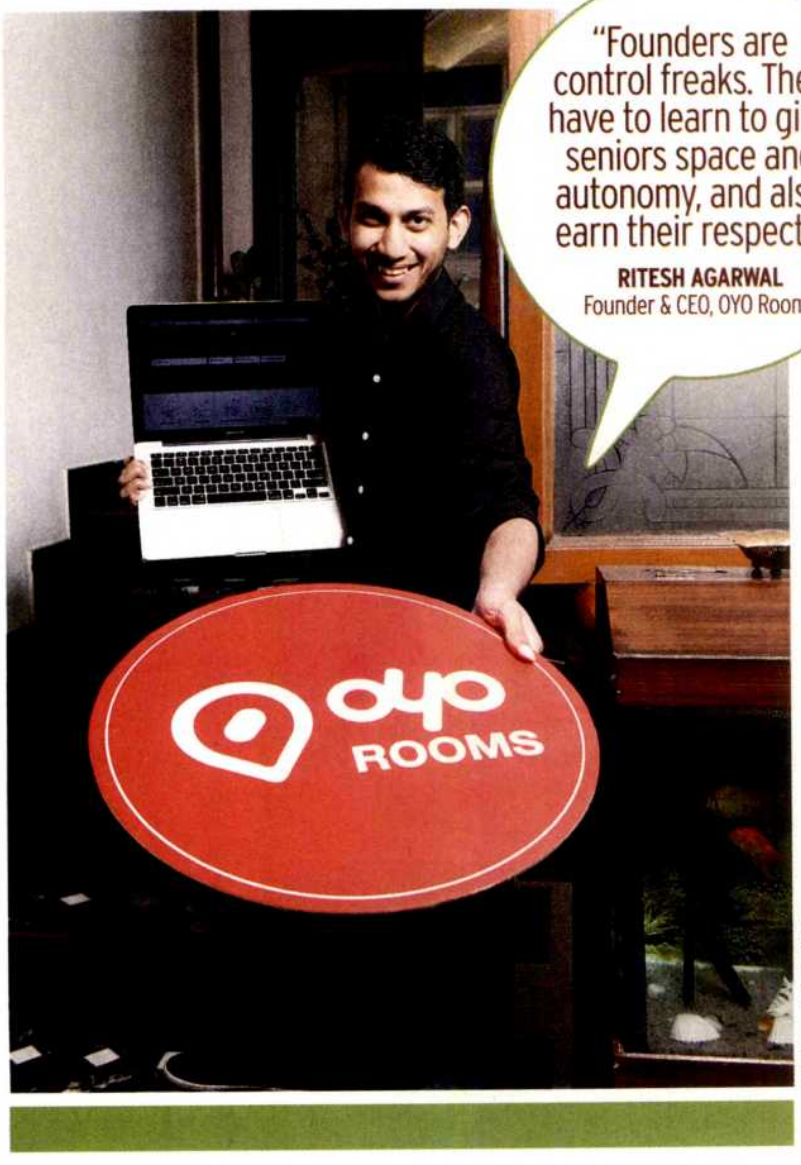
The learning and adjustment process is clearly not easy for the young talent in an outfit, often including the founders. But wisdom gradually dawns on them that it is best to have seasoned professionals running the show. "He (Agarwal) is extremely driven and passionate and has the gift of getting many senior people on board. But, he is also a guy who has no experience of having worked in a professionally-run organisation. So he is also learning and evolving as a leader," says Ravi Kiran, former CEO of Starcom MediaVest Group South East and South Asia, who is now the co-founder of VentureNursery – the start-up accelerator for OYO Rooms. Today, OYO Rooms has over 500 people on its rolls with average age around 24 years, and the leadership team of around 50 people has senior talent in their early forties as well.

Experienced people coming into an organisation can bring in key processes, says Hosanagar of Wharton School. "Another such change, particularly in Silicon Valley, can be work-life balance. At valley start-ups run by 20-somethings, it's not uncommon for employees to work late into the night and weekends. It's just part of the culture. Introduction of someone senior can again change the norms," he says.

SUBIR HALDER

It's not just the youthful founders who are adapting under the seniors – the reverse is happening too as the evolving work ethos demands an openness and flexibility from tenured talent. Given this, reverse mentoring is not a fad, but an existential reality that most dynamic professionals, such as 42-year-old Ranjeet Oak, Chief Business Officer, Holidays, MakeMyTrip.com, readily embrace. "Sure, I do know the dynamics of what it takes to reach out to 700,000 retail outlets, but I needed to quickly learn the online go-to-market structure and online product structure from someone younger, given that MakeMyTrip does over 15,000 transactions on a daily basis," admits Oak candidly, who has over 16 years of experience at P&G in various markets.

Are these people missing out on a peer group that leads to a more cohesive culture? "Myntra is at the forefront of doing things and we have talent from global companies that adds to the diversity. And there is employee ownership in such structures that makes it very attractive for any senior person," says 42-year-old Vikram Kolar, Senior VP at Myntra,



SHEKHAR GHOSH

adding that the opportunity available to foray into unchartered territories with e-commerce start-ups is a big draw for people like him.

Significantly, most of these e-commerce companies have extremely seasoned HR heads. Consider the example of Yuvaraj Srivastava, Chief Human Resource Officer at MakeMyTrip.com. He joined the company in May last year and has over 16 years of hardcore corporate experience dealing with industrial relations for organisations such as Asian Paints. MakeMyTrip, under Srivastava's guidance, has launched product councils where everything and everyone is reviewed. The benefit is that the younger generation gets instant feedback and the older team members also get an honest opinion from others on their views and decisions. "A top down approach is not the answer," says Srivastava.

In fact, organisational culture is still a work-in-progress in most companies. "We had people walking in at odd times, or taking leave and there was no way of telling them whether it was acceptable or not," says an employee of a leading e-commerce start-up. "Now with seniors coming in, these issues are getting defined."

Paying the Price

But tenured talent does not come cheap and is not easily available. Today, people with specific domain experience are commanding anywhere between ₹2 crore and ₹7 crore per annum. "Fact is that in India most professionals do not want to take a haircut on cash component to get a stake in highly valued companies. They want it all," says Kathuria. But growing e-commerce ventures are only too aware about such a challenge and, in fact, are prepared for it. Nidhi Agarwal, founder and CEO of fashion portal Kaaryah.com, is trying to address the issue by roping in talented professionals seeking only part-time, consulting roles such as Sarika Grover, the former marketing head at 99labels.com, an online sale portal. "She wants to be involved with different things and I am fine with that, so long as I too get to benefit from her experience," says Agarwal.

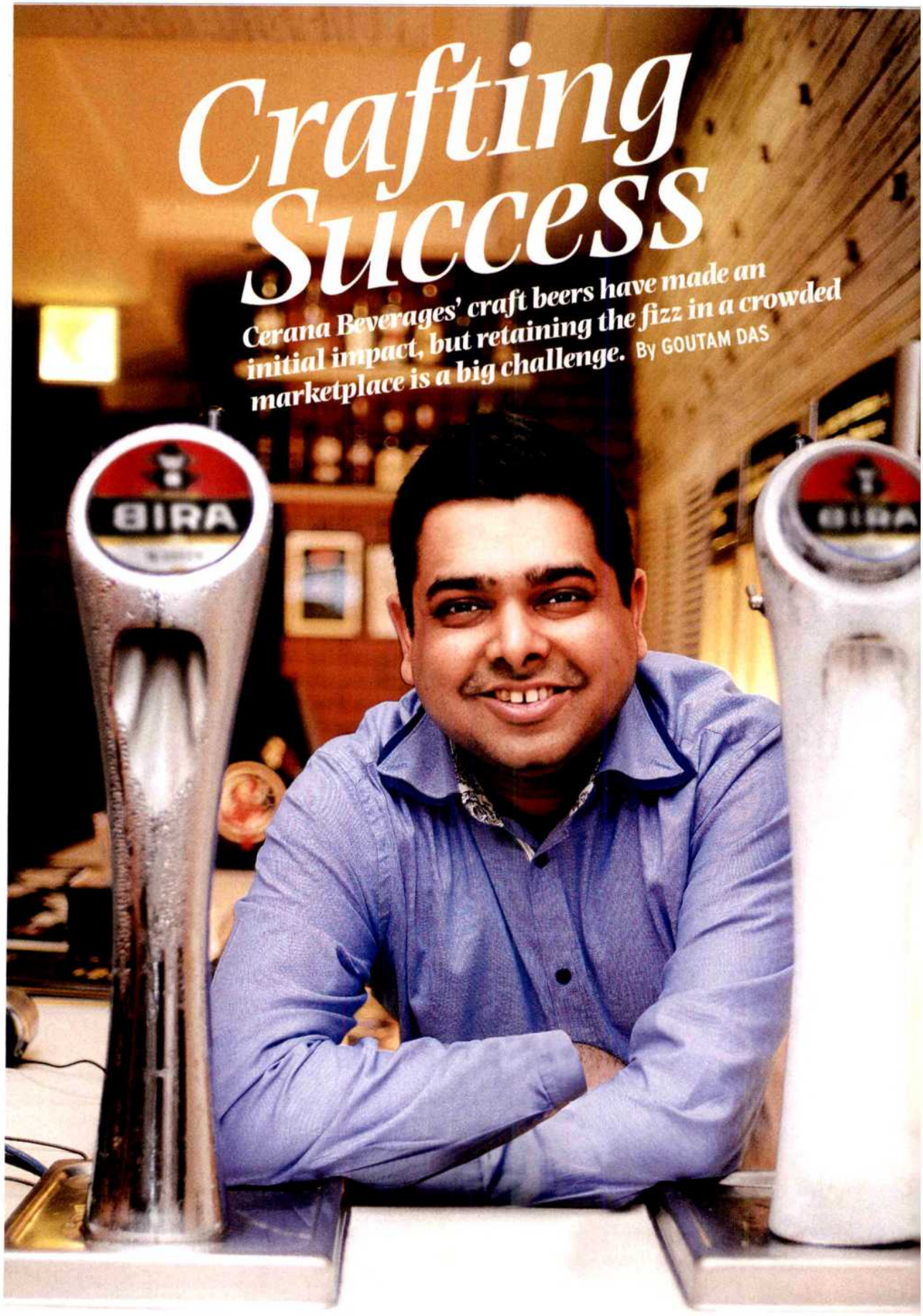
Bansal of Lenskart sums it up. "With more senior talent joining us, we would like to develop a much more professional and customer-focused culture in our organisation. This is already happening by empowering these new senior leaders to lead large teams and independently find solutions to problems without involving the founders," he says. "I'm also driving a lot more disruption as the senior teams give me confidence to take much bigger leap steps."

Occasionally, however, the seniors can go wrong too. Remember John Sculley, the corporate star who was hired from PepsiCo by Steve Jobs to steer the course of Apple and who ended up firing Jobs! Jobs came back to turn Apple around. Maybe there is hope for Rahul Yadav yet. ◆

@ShamniPande

Crafting Success

Cerana Beverages' craft beers have made an initial impact, but retaining the fizz in a crowded marketplace is a big challenge. By GOUTAM DAS



PHOTOGRAPHS BY VIVAN MEHRA

ANKUR JAIN, Founder & CEO of Cerana Beverages, at The Beer Cafe, Janpath, Delhi

For a Monday evening, My Bar, a watering hole in Delhi's Connaught Place, was unusually busy. The entertaining banter of the tipsy was temporarily punctured by an argument. A 30-something across this writer's table ordered for "Bira White" – a wheat beer low in bitterness. The bottle served, instead, was a lager, the more bitter "Bira Blonde". The pub had run out of the wheat beer and the waiter opened the lager, inviting his customer's wrath. He refused the drink. And the bill.

Bira White was not available at The Beer Cafe, a beer chain, either. Nor did this writer find a bottle at retailer Nature's Basket's Greater Kailash outlet. The retailer, informed an employee, had run out of stock after this wheat beer outsold the lager 3:1 in the past few weeks.

For an established company, an "out of stock" scenario implies serious loss of business resulting from poor forecasting. But Ankur Jain, founder and CEO of Cerana Beverages, does not fret. He triumphantly calls the two beers "India's first craft beer" brands. "We have sold 10,000 cases in Delhi in May; 70 per cent of that is Bira White," he says. One case is two dozen 330 ml bottles. In terms of gross revenue, it clocked $1.5 million (₹9 crore) in Delhi in May. "It is beyond our expectations," he says.

There are different ways to describe a craft beer. An "intellectual beverage" to some; to others, especially the Americans, it must be "small, independent, traditional" – the flavour has to derive from innovative brewing ingredients and its annual production no more than six million barrels. Jain does not agree with this description. "Craft can be big. But the essence remains the same – great-tasting beer made with natural ingredients, made by passionate brewers, and the right processes," he says, before emphasising, "Taste triumphs testosterone."

When Jain was thinking of an Indian beer brand around 2013, the choice of this category was easy picking. India consumed around 270 million cases of beer in 2014/15. Craft beers, including microbreweries, make up only one per cent of the market. Overall, the market is dominated by United Breweries Ltd (UBL). According to a June 2015 report by brokerage ICICI Direct, UBL has a 51 per cent market share with its Kingfisher brand alone commanding a 36 per cent share and its Heineken brand in the premium segment countering global brewers. Jain positioned his beers between a Heineken (₹100 for a 330ml bottle in Delhi) and a Corona (₹200). While Bira White costs ₹175, the Blonde comes for ₹150.

The pricing, in many ways, is a function of his operating model. Cerana does not brew in India. It outsources production to Belgium. "We created the recipe. It took us a year to arrive at the right taste. We had a Belgian brew master," Jain says. The idea was to introduce Indian guzzlers to a quality they were not familiar with. "The message from Kingfisher was 'we are the authentic Indian brand and therefore, as an Indian, you should consume me'. Everybody else who came from Europe or America was telling the consumer 'drink me because I am so highly respected'. It was a sterile message, a condescending message," Jain analyses. "But beer drinking is meant to be a lot more democratic and fun." Along came Bira with a winking, perhaps a drunk monkey on its label – symbolising the tropical climate, India, and fun.

QUICK FACTS

PRODUCTS:
Two beers, Bira 91 White and Bira 91 Blonde

BREWING SINCE:
November 2014. Formally launched in Feb 2015

CURRENT MARKETS:
Delhi, Bangalore. In Mumbai, Pune and Kolkata soon

PRICE POSITIONING:
Costlier than Heineken, cheaper than Corona

GROSS REVENUE:
₹9 crore a month in Delhi (measured at retail value)

FUNDING:
Raised ₹7.15 crore from an angel fund and high net-worth individuals

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IT'S TIME TO BLOW UP HR AND BUILD SOMETHING NEW. HERE'S HOW

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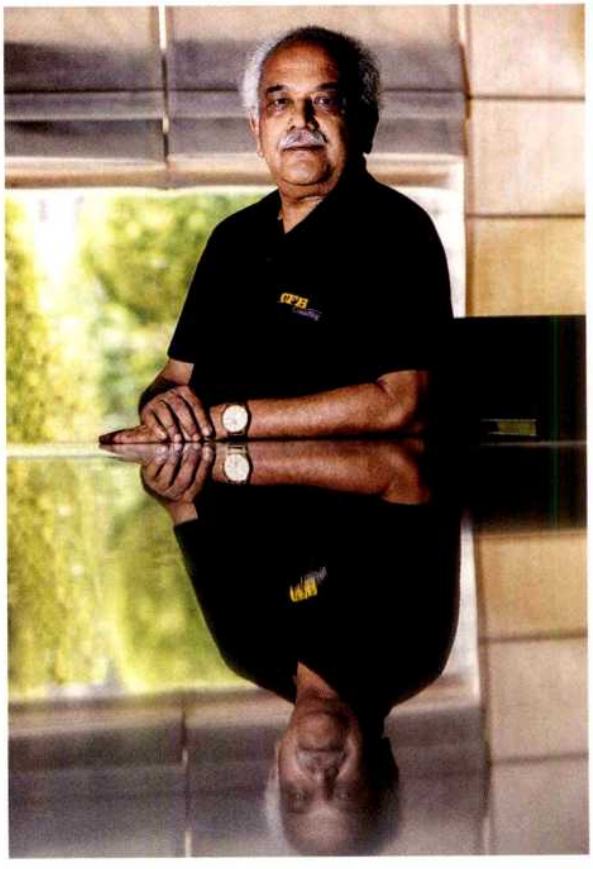
Jain is exploring ways to drop his pricing to around ₹100 and thinking of local production – the company's Vice President of Production, Jaideep Wanchoo, recently joined from Carlsberg India where he was the head of quality. Interestingly, most of Cerana's leadership have little background in the alcohol industry, though all of them are fanatical beer lovers. Chief Operating Officer Anuj Krishan's last job was at UBS Investment Bank in London. He loves his beer pilgrimages to Belgium, "trying their various lambics – beer fermented with wild yeast". Marketing head Tanmoy Mukherjee was earlier with Lavazza Coffee. He once "drank himself silly in Stockholm bars". And Jain's most memorable beer experience was "staying overnight in the dorms of the Abbey of Chimay, waking up at 5 a.m. for a prayer, and then heading to the breakfast room for a beer with the monks."



PRADEEP VERMA,
Senior Partner
CFB Consulting GmbH

"You need money to establish the brand. For smaller companies, the brand promotion will be limited. Also, big daddies keep a watch. They can offer better schemes to retailers and distributors"

Jain is a techie. His first job was at Motorola in the US, where he developed mobile applications. His first start-up, in Brooklyn in 2002, was in health-care management. He sold the firm in 2006 and moved to India to work with Reliance Retail. "In Brooklyn, my office was down the street from the Brooklyn Brewery, where I used to spend a large part of my time every Friday and Saturday," Jain recollects. "I was not a beer drinker before I moved to New York, but Brooklyn made me one." Cerana started as an import and distribution company in 2009, but pivoted in 2013, when Jain saw an opportunity in craft beer.

The path ahead is likely to be bumpy. Excise is a state subject and changes in tax rates is one headwind every alcohol company faces. Cerana learnt this lesson early. The company initially launched the beers in Delhi and Gurgaon, but had to pull back from the latter from April 1, as Haryana upped excise duty on imported liquor and its beers became three times more expensive.

The start-up is now expanding in Bangalore, Mumbai, Pune and Kolkata. But as it expands, distribution costs and complexities will increase. Pradeep Verma, Senior Partner at CFB Consulting GmbH, and a beer consultant, says one needs deep pockets to become a pan-India brand. "You need money to establish the brand. For smaller companies, brand promotion will be limited," he says, and adds a second challenge: "Big daddies keep a watch. They can offer better schemes to retailers and distributors."

Samar S. Sheikhawat, Senior Vice President of Marketing at UBL, thinks microbreweries and craft beer is largely a big city phenomenon. For the next five years, he predicts, the market for craft beer will remain small. Today, 85 per cent of the market is strong beer, or those with seven to eight per cent alcohol content. Indians like to get a "kick", and mild beer (including craft beer), with less than five per cent alcohol, will not have many takers.

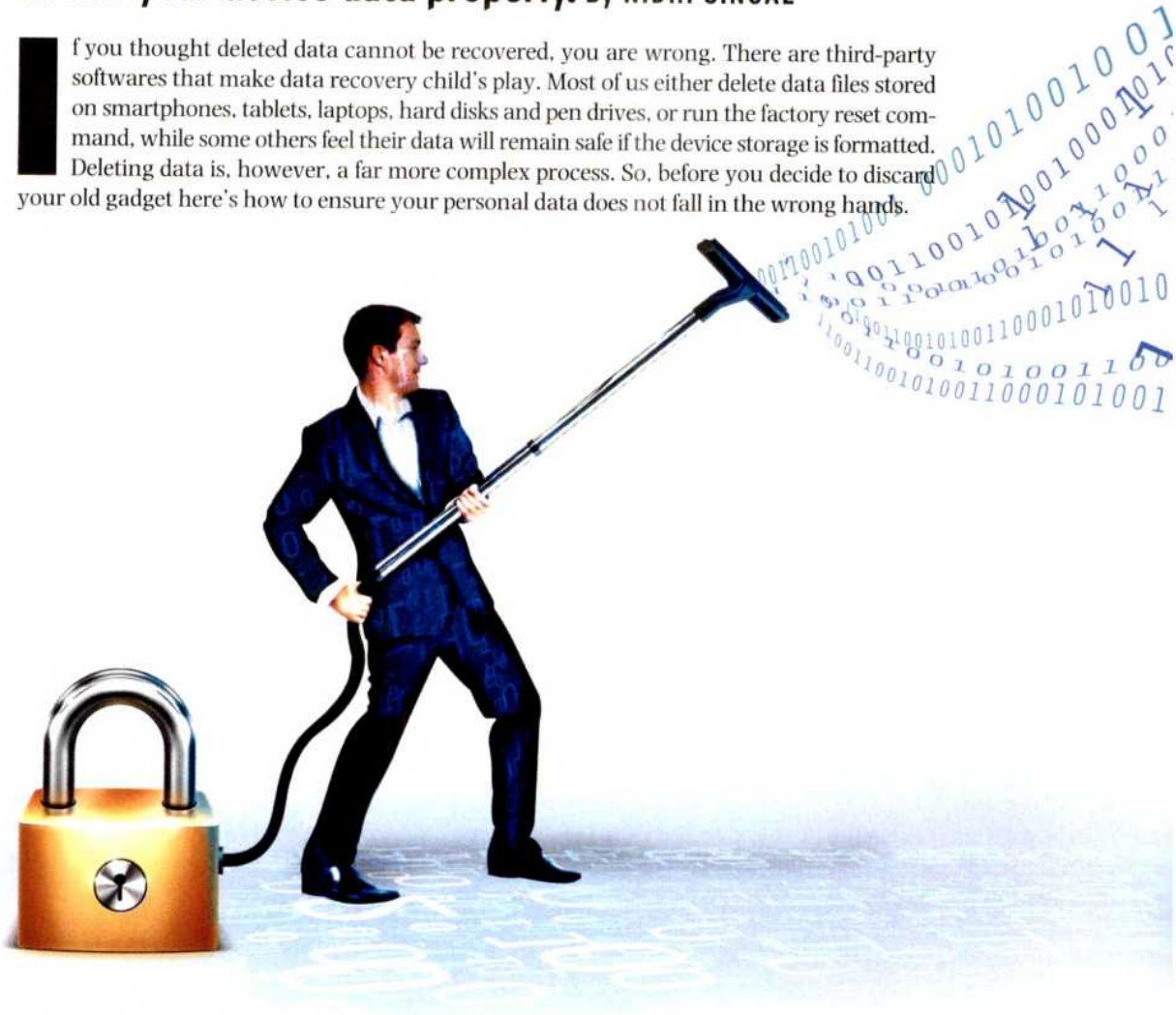
All entrepreneurs are optimists – Jain believes craft beer, including microbreweries, would capture 15 to 18 per cent of the market by value in 10 years. The overall Indian beer market would expand, too. The per capita consumption of beer in India is below two litres whereas Russia guzzles 76 litres, Brazil 64.5 litres, and China 34.5 litres. The ICICI Direct report says India's per capita beer consumption will rise to five litres over the next decade thanks to favourable demographics, greater social acceptance and higher disposable income. To Jain, that very thought is more intoxicating than the drink he makes. ◆

@Goutam20

SECURE WIPE

You can be a victim of identity theft if you do not delete your device data properly. By NIDHI SINGAL

If you thought deleted data cannot be recovered, you are wrong. There are third-party softwares that make data recovery child's play. Most of us either delete data files stored on smartphones, tablets, laptops, hard disks and pen drives, or run the factory reset command, while some others feel their data will remain safe if the device storage is formatted. Deleting data is, however, a far more complex process. So, before you decide to discard your old gadget here's how to ensure your personal data does not fall in the wrong hands.



RAJ VERMA

Android OS: Factory reset is one of the most common ways to delete data from devices. But if you plan to sell or discard it, factory reset is just not enough. You have to first encrypt the data before running the command. Just tap on settings, security and select encrypt phone. Add a complex password that is hard to crack and then press on factory reset. It is a tedious process and can take a couple of hours. Once the hard drive is encrypted, all the data will be scrambled and, effectively, useless.

iOS: iPhones and iPads are far more secure than the rest. They come with full disk encryption supported at the hardware level by Apple. The company claims to have designed the iOS with security as its core. A simple erase all content and settings will do the job. The iPhone will ask you to key in your Apple account password before the device is wiped clean. If anyone tries to access the information, he or she will have to first create a new account and that will not allow them access to the previous data.

Windows devices, hard disks and pen drives: Even Microsoft acknowledges that reformatting a disk or reinstalling the operating system does not translate into wiping a device clean of the data. The company recommends Active@ KillDisk and Softpedia DP Wiper. Both tools are free. Killdisk is a hard disk drive sanitising tool that destroys all data and also cleans up the drive's boot sector. RoadKill's Disk Wipe is another software that securely erases the contents of a disk. It can either replace it with random data or leave the drive completely blank. While running the software, you can select the number of passes that should be performed as it ensures data is totally unrecoverable. This programme works well on hard drives as well as flash drives. Eraser is a software that removes residues from the deleted files, overwrites the wiped disk several times with selected patterns. Both can be used if you want your disk to be wiped clean. Darik's Boot and Nuke also do a good job. You can also seek professional help.

SSD: The software won't be any good for cleaning an solid-state drive (SSD). The simplest way is to search for the SSD manufacturers drive-wide secure erase. You can download the specific programme. You can then use it to wipe the solid-state drive. The other option is to encrypt the SSD using VeraCrypt. There's also a third option. Third party software, such as Parted Magic, come at a nominal price and can erase the disk. It works well on Mac OS as well.

Mac: On a Mac, you can use the built-in FileVault utility to encrypt the SSD. It is simple to use and does not require any passphrase or additional software.

After a security wipe using third-party apps and software, you can also load the device with data such as movies and wipe it all over again. This data will be overwritten on the emptied space that will further eliminate the chances of retrieving data. If you overwrite the data several times, it reduces the chances of recovering data.

BAG IT OR JUNK IT:

Premium-looking smartwatch with faces. Comes at a price.

PRICE: ₹29,990

RATING: 4/5

PLUS: Premium look, watch faces

MINUS: Price, battery

LG G Watch Urbane

LG's G Watch Urbane is a premium smartwatch which is priced on the higher side. But is it worth the money is the question. **By NIDHI SINGAL**

The G Watch Urbane isn't LG's first attempt at a smartwatch. It had come up with the G Watch and G Watch R. But unlike those, this is a premium timepiece.

The G Watch Urbane has got a stainless steel casing with gold finish and a stitched leather strap. At first glance, I wasn't happy with the looks, but once I put a face of my choice to the watch, it wore a completely different look that would complement both your business and casual wardrobe. Unlike the Moto 360, which had a black bar at the bottom, this one has a full circular dial measuring 1.3inch. The premium timepiece has a bright and sharp display with 320x320p resolution and offers great sunlight legibility. The side button helps turn on the display and adjust the brightness, and if you press it for long it gives you access to settings.

This smartwatch runs on the latest Android Wear 5.1.1 and is powered by 1.2Ghz Qualcomm Snapdragon 400 quad-core processor with 512 MB of RAM. It has 4GB of internal storage. It's 10.9 mm thick and the large metal bezel adds to its weight (66.5 gm). I found it a bit too heavy, but it would be a fine fit for a man. It is IP67 certified, dust and water resistant.

To set up the LG G Watch Urbane, you will first have to install the Android Wear app in your smartphone and pair it over the Bluetooth. The watch is easy to use and you can master the workings of the device within a short span by swiping on the display. You can slide your finger from the top to the bottom edge to access notifications, theatre mode and quick settings, apart from increasing the brightness. All the apps are placed on the homescreen. This watch can be used to view call, email and message notifications, and to get traffic alerts. Unlike some of the smartwatches that support calling, this one does not. You can access call logs but will have to pick up your phone to dial and make a call. You can also access Google Now-based contextual updates in the form of cards, just by flicking your wrist. The 'Ok Google' command wakes up the watch and takes commands for sending a text message, checking weather updates, setting up a reminder, controlling music, launching an app and much more.

One of the best features of the Urbane is the Wi-Fi Sync, which continues to fetch Internet-based notification even if you forget your phone at home. The only criterion being that the phone should be connected to the Internet. For charging, there isn't any port, but you will have to plug it to the charging accessory that comes with the watch. A full charge lasted for over a day-and-a-half. ◆

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Sony Xperia Z3+

At first glance, the Z3+ is a shade smarter than Z3. The amazing features will make you fall in love with it, but it may also be too hot to handle. By NIDHI SINGAL

It essentially looks and feels the same as its predecessor. At 6.9 mm and 144gm, it's marginally thinner and lighter than the Z3, and I don't see any reason why Sony would have played around with a perfected design. It houses a power button, volume control rocker and a dedicated camera key on the right panel and, on the left, it features a single slot which houses both the nano SIM and SD card slots. The charging port and the headphone jack are at the bottom and top, respectively. The curved edges are more distint and accentuated, but the screen is the same as Z3's at 5.2inch with Full HD (1080x1920 pixel) resolution.

As soon as you switch on the phone, you start noticing discernible refinements over the Z3. Playing heavy games, streaming videos and recording 4K videos, were like a breeze. The Qualcomm Snapdragon 810 processor (1.5Ghz quad-core plus 2Ghz quad-core) does a good job when it comes to speed, but as expected, it heats up the device quite fast. barely eight minutes into recording a 4k video the phone screen displayed a warning:"If the device temperature rises, the app may close during use". Sony must address this issue immediately.

The 20.7 MP rear camera was, however, a treat. The photo quality was quite good across varied lighting conditions. The superior auto mode detected all kinds of landscapes and changed the white balance and other settings automatically. The camera was fast and the 4K videos were not only of great quality, but the playback quality was amazing. The twin speaker embedded inside that slim design packed in a suprising punch.

Overall, the performance of Z3+ was snappy and its dust and water resistant feature makes it that much more appealing. Hopefully, Sony can address the heating issues with future software updates. ◆

@nidhisingal

BAG IT OR JUNK IT:

Feature packed, but heats up very fast. If this issue is addressed, it may be your next.

PRICE: ₹53,990

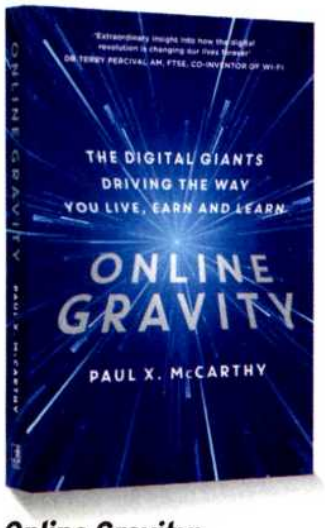
RATING: 4/5

PLUS: Design, camera, water and dust resistant

MINUS: Price, overheating

New Rules for a Digital World

For those who are worried that technology and the Internet are closing in on us too fast, too soon, the book is a soothing balm. By UMANG BEDI



Online Gravity: The Digital Giants Driving the Way You Live, Earn and Learn

By Paul Xavier McCarthy

PAGES: 336

PRICE: £14.99

Simon & Schuster UK

Online business pro and technology expert Paul X. McCarthy's latest book is a fascinating account of how the startling and intriguing phenomenon called 'digital' has brought its own set of rules for business giants and start-ups alike to harness. For all devil's advocates and naysayers feeling vexed and worried that technology and the Internet are closing in on us too fast, too soon, and for those who feel they are on a collision course with the ever-growing global and competitive workforce, *Online Gravity* is a soothing balm.

Although McCarthy reveals the existence of the dominant giants in the business, the book also reveals remarkable opportunities for smaller companies to cash in on the "distinctive and original insights into the new set of rules that are reshaping" how to conduct business, how to work, even our personal lives and leisure. Understandably, online has become the new home for innovation. McCarthy writes about how new businesses are bringing in new ways to get things done for the online community, often "combined with the new-found capabilities of the web to support mobile, real-time and big data interactions".

At the heart of the book are ideas and knowledge. As McCarthy says, "good ideas" and "reliable knowledge" are "different from many other commodities in our lives" as "they are not things that any individual and company can own". Add to this our thirst to know more. The web empowers us to not only change the way we work and go about our daily life but also help others with information they can use and learn from.

It's not surprising that the quest for knowledge has become all-pervasive, moving beyond traditional barriers. McCarthy explains this by citing the "talent signatures" for knowledge economy giants such as Apple, Google and Amazon and their diversification to alternative approaches in hiring. Consider this: Apple has seven times the number of liberal arts graduates than others in the domain; so does IBM.

Delving deeper into the domain of knowledge, McCarthy reveals how small can, indeed, be beautiful – or ugly – for business, too. Taking the nuance of timing into account, small events that in the past may not have been thought relevant, can today have significant "snowball" effects by virtue of online gravity. He cites how new products and companies can innovate and harness the exponential online growth capabilities with the help of powerful platforms such as Google, Facebook, Alibaba and Amazon.

Perhaps, the book's prime focus is the set of seven laws shaping the new business world. McCarthy explains their inherent ability to help present and future generations transform into relevant, informed workers and business owners of the century.

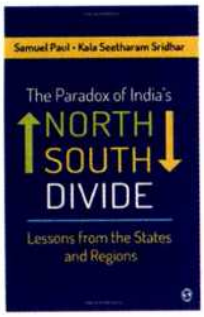
Just like the online world it explores, the book is a global phenomenon, digital by its very nature, with the ability to exponentially speed up processes, create a network as infinite as its reach, and act as a harbinger of ubiquitous and multi-dimensional talent. The theories and observations that McCarthy unravels in the book are not just about the digital giants driving the way we live, earn and learn. Just like gravity keeps the stellar bodies in place, in addition to the online superstructures there's still "lots of space in between" for more diverse and smaller structures to create their own identity. ◆

The reviewer is Managing Director, South Asia, Adobe Systems

McCarthy writes about how new businesses are bringing in new ways to get things done for the online community

Apples and Oranges

The book fundamentally errs by comparing India's northern and southern states. By ANILESH S. MAHAJAN



The Paradox of India's North-South Divide
By Samuel Paul and Kala S. Sridhar
PAGES: 236
PRICE: ₹850
Sage

As a student of political economy, if someone asks me to draw similarities between Uttar Pradesh (UP) and Tamil Nadu (TN), I would point out political theatre as the one thing in common. In both states, family-run parties – the Yadavs of the Samajwadi Party in UP and Karunanidhi's clan that controls DMK in TN – have been challenged by parties dominated by a woman, Mayawati and J. Jayalalithaa, respectively. Apart from this, there is hardly any similarity between the two states.

Herein lies the problem with this book. To put across their point, the authors compare the two states. The paramount finding is that though the south (TN) was somewhat better placed for over two decades initially, it was only in the post-liberalisation period that it could realise its potential and surge forward. The book puts across quantitative data on proximate and foundational factors based on interviews with officials and scholars in both the states.

But to my mind, it is rather like comparing apples to oranges. The situation today is that if you compare any state with the parameters of giant-sized UP, then that state is bound to shine.

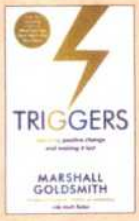
Despite stability in governance for the last eight years, UP is growing only at approximately five per cent. TN has an inborn advantage of being a state with ports, so obviously it will attract manufacturing, and not UP. The study also indicates that the southern Indian state's better proximate and foundational factors facilitate the inward flow of resources for investments in manufacturing and services.

The book infers that the gap between the southern and northern states of India has widened in recent years in terms of per capita income and poverty reduction. An analysis of historical data for over four decades shows that the gap between the two regions was much smaller earlier and that the north (UP) even had a headstart in some areas. But the authors find that southern states were able to take advantage of the liberalisation era. On governance related parameters, too, the south fared well. While the per capita development spending in the north is more, it has not translated into higher literacy rates, superior performance on health care parameters and better infrastructure, leading to lower resource efficiency.

As such, the book does not offer any recipes for achieving development, but only points towards an enabling environment for investment, governance, health and education to take advantage of the unfolding economic opportunity. More than answers, this book leaves you with a fresh set of questions. ◆

Triggers

THE FORTNIGHTLY PICK

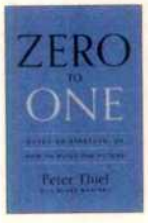


By Marshall Goldsmith
Hachette Book Publishing
Price: ₹399
The author, the world's No.1 leadership thinker, offers simple, practical advice on the triggers that will help us sustain positive change.

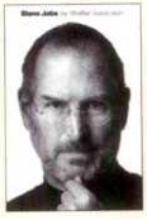
BUSINESS BESTSELLERS*

Arise, Awake
By Rashmi Bansal
Westland Books
Price: ₹200

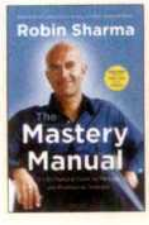
Elon Musk: Inventing the Future
By Ashlee Vance
Virgin Books
Price: ₹699



Zero to One
By Peter Thiel
Random House
Price: ₹499



Steve Jobs
By Walter Isaacson
Little, Brown Book Group
Price: ₹550



The Mastery Manual
By Robin Sharma
Jaico Publishing House
Price: ₹199

*Top books by sales for June 21-July 4, 2015; Includes only books released after July 1, 2014; Information provided by amazon.in

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Momentum HR Placement Services
PAN India Head–Outdoor Luminaries
Location: Delhi
Job ID: 17133318
Description: Experience of 15-20 Yrs in handling municipalities, corporations, village panchayats on all India level.

Sampoorna Computer People
Sr. Manager/AVP - HR
Location: Mumbai
Job ID: 17117338
Description: Looking for Sr. Manager / A' HR with excellent communication skills.

ABC Consultants Private Limited
Global HR Head-IT
Location: Chennai
Job ID: 17114031
Description: To maintain high level of proactive and forward thinking Operational HR services to Executives and Leadership team with regards to their human resource needs.

Calsoft Labs India Pvt Limited
Manager / Sr Manager - Finance
Location: Chennai
Job ID: 17018442
Description: Should have the ability to P track record of developing procedu implementing process improvements communication model for operatic activities.

Quotient Consultancy
Regional Head
Location: Mumbai
Job ID: 17125468
Description: To ensure all branches in region achieve targets for revenue & customer acquisition.

Pathfinder Management Consult (India) Ltd
Head - Human Resource
Location: Pune
Job ID: 17114391
Description: Urgent requirement for H Human Resource (HR) for one of the for 500 company.

Futurz Human Resources Solutions Private Limited
Director – Talent Acquisition
Location: Chennai
Job ID: 16828534
Description: Establish and maintain relationships with hiring managers to stay abreast of current and future hiring and business needs.

eClerx Services Private Limited
Senior Manager - Recruitment
Location: Navi Mumbai, Chandigarh
Job ID: 17054431
Description: Hands on experience in E End Recruitment, Comfortable with hiring & critical search assignments.

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Android Lead Developer
Location: Bengaluru / Bangalore
Job ID: 16861661
Description: Architecting and developing the Android applications that interacts with Replicon Cloud based platform.

Cisco Systems India Private Limited
Security QA
Location: Bengaluru / Bangalore
Job ID: 17100639
Description: Experience of working on networking, security technologies.

Mindtree Limited
TIBCO IPROCESS_EIM_TECHNICAL LEAD_BLR (2101)
Location: Bengaluru / Bangalore
Jobs ID: 17136431
Description: Experience in design using UML and awareness of integration design patterns.

Applied Micro
Staff /Sr. Staff / Principal Multicore Software
Location: Bengaluru / Bangalore
Job ID: 16895747
Description: Must have worked on at least 2 to 3 large scale project as an Architect.

Cigniti Technologies Limited
Software Engineer/ Programmer
Location: Hyderabad / Secunderabad,
Job ID: 16941802
Description: Looking for someone with a valid US visa for a long-term onsite opportunity.

Exilant Technologies Private Limited
Java Technical Managers
Location: Bengaluru / Bangalore
Job ID: 17135677
Description: Work with users to understand their needs and articulate that through requirement and functional specifications, and playback sessions.

Polaris Financial Technology Limited
Java / J2ee Professionals
Location: Pune
Job ID: 17083300
Description: Willingness and ability to learn and take on challenging opportunities and to work as a member of matrix based diverse and geographically distributed project team.

NTT DATA India Enterprise Application Services Private Limited
Dot Net
Location: Pune
Job ID: 17136315
Description: Good Understanding of MS Internet Information Server 7.x, MS Visual Studio 2010.

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Delta Placements
Sr. Channel Sales Manager
Location: Pune
Jobs Id: 17134078
Description: Responsible for driving indirect sales through creating and managing a portfolio of Channel Partners.Responsible for driving indirect sales through creating and managing a portfolio of Channel Partners.

NetApp
Pursuit Strategic Business Developm Manager
Location: Delhi
Jobs ID: 17091007
Description: Responsible for selling negotiating complex IT and business soluti to drive NetApp revenue at strategic gl enterprise clients (Fortune 500).

Jobsplan
Marketing / Product Manager
Location: Gurgaon
Job ID: 17122490
Description: Market research for recognizing business opportunities, Understand current and potential customers etc.

2COMS Consulting Private Limited
Channel Sales Manager
Location: Rajamundry, Visakhapatnam
Job ID: 17135681
Description: Candidate should h minimum 2 years of Channel sales experien

Walking Tree Consultancy Private Limited
VP - Business Development, Sales & Marketing
Location: Hyderabad / Secunderabad
Job ID: 17135010
Description: Responsible for heading the sales force effectiveness and steering the business growth.

Aparajitha Corporate Services Limited
Marketing Manager
Location: Chennai
Job ID: 17121205
Description: Good in communication, Tr to client place if needed, Development Result oriented person etc.

Rockwell Collins (India) Enterprises Private Limited
Principal Account Manager
Location: Delhi, Gurgaon
Job ID: 17054590
Description: Experienced in handling sales and business development in commercial Aviation(Air transport/ General aviation/ BRS/ Inflight Entertainment.

Orange Tree Business Solutions Priv Limited
Assistant Manager- Sales and Marketing
Location: Kolkata, Mumbai
Job ID: 17124877
Description: Identifying and selecting ta audience for audience for expanding business - Ensure continuous marke activities.

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RR Donnelley India Outsource Private Limited
Tax Manager
Location: Chennai
Job ID: 17033213
Description: Minimum of 3-6 years experience in tax department preferably an IT/ITES company.

Topsource Infotech Solutions Private Limited
Senior Executive Internal Accounts
Location: Pune
Job ID: 17131734
Description: The role of a Senior Executive Internal Accounts is to ensure that the tasks assigned are completed on time, accurately and completely.

Cadence Design Systems (India) Pvt Ltd
Senior Account Executive
Location: Bengaluru / Bangalore
Job ID: 16577267
Description: Will act as the primary sales contact for the Cadence products in certain accounts with responsibility of generating business from those accounts and from other open territory accounts.

UnitedHealth Group
Account Payable Executive
Location: Delhi
Job ID: 17133185
Description: Receiving, verifying and processing vendor invoices, Maintaining Invoice trackers etc.

Juniper Networks Inc.
Finance Associate Manager - GL
Location: Bengaluru / Bangalore
Job ID: 17081184
Description: Monitoring month close progress as per close calendar and timely communication with Corporate Accounting.

Vitasta Consulting Private Limited
Manager Taxation
Location: Navi Mumbai
Job ID: 17126251
Description: Responsible for Direct Tax (Income Tax, TDS, Transfer Pricing) and Indirect tax (Indirect tax - Excise, VAT, Service tax, CST, customs laws etc) and other laws as may be applicable to the company for the time being in force.

Misys Software Solutions India Private Limited
Assistant Manager Revenue Accounting
Location: Bengaluru / Bangalore
Job ID: 17124660
Description: Should be a qualified Chartered Accountant with a post-qualification experience of 5 – 6 years.

Talent Mappers Consulting India Private Limited
Admin & Accounts Executive
Location: Bengaluru / Bangalore
Job ID: 17111292
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Ratan Tata
Chairman Emeritus, Tata Sons

SHEKHAR GHOSH

Cheaper by the Dozen

'E' seems to be the new obsession of **RATAN TATA**, who is shopping by the dozen. After his investment spree in a host of entrepreneurial e-businesses, ranging from Snapdeal, Paytm, Urban Ladder, CarDekho and Ola Cabs, Tata's 12th bet is in an electric vehicle start-up. The 76-year-old former chairman of the salt to software Tata Group has just picked up stake in Ampere, a Coimbatore-based start-up founded by a woman entrepreneur, Hemalatha Annamalai, which makes electric cycles, scooters and trolleys as well as special purpose vehicles for the differently-abled.

Lalit Modi
Former Chairman, Indian Premier League

Sledging from the Stands

LALIT MODI is an equal opportunity disruptor. Cutting across party lines, he has thrown his darts everywhere. His targets include President Pranab Mukherjee, the Congress leadership, former UPA ministers and businessman Vivek Nagpal. He has taken to Twitter to make sensational disclosures. In one of his tweets, he has also talked about starting *fightcorruption.org*. Knowing him, we must get ready for more *masala*.

Rahul Yadav
Former CEO, Housing.com

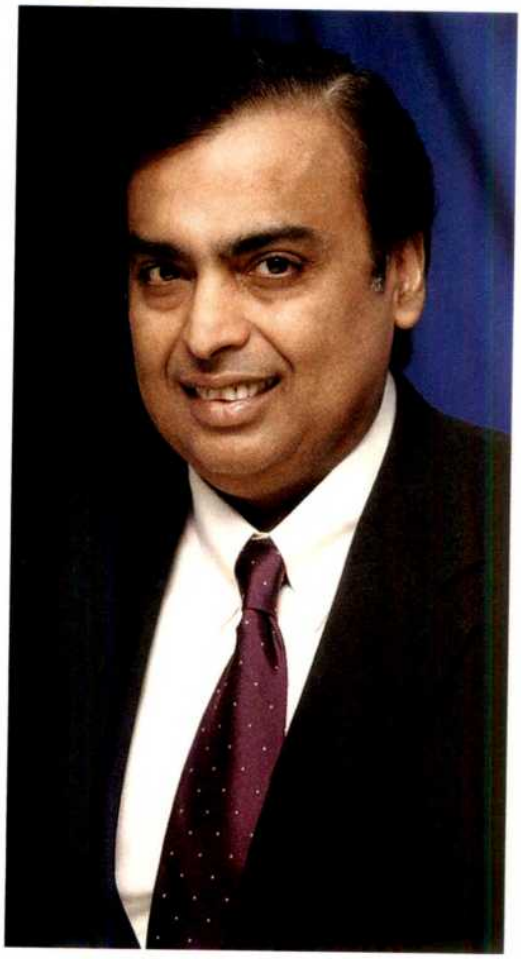
Home Alone

RAHUL YADAV has been sacked by the board of Housing.com. The reasons cited for removing Yadav, the only dropout among the 12 co-founders from IIT Bombay who started the real estate portal in June 2012, largely relate to his brash behaviour towards the investors, who he had said was 'intellectually incapable'. The 26-year-old did apologise but it seems that the damage had already been done. The news of Yadav's exit follows speculations that the investors will likely sell the company and were reportedly in talks with online classified company Quikr.

Mukesh Ambani/
Y.C. Deveshwar
CMD, RIL/ Chairman, ITC Ltd

The Median Gap

India's richest man **MUKESH AMBANI**'s annual salary of ₹15 crore has remained unchanged in the last seven years, but it is 205 times above that of the median employee remuneration at Reliance Industries (RIL). However, this ratio stands much higher at 439 times in the case of **Y.C. DEVESHWAR**, the Chairman of ITC. The shareholders-approved compensation of Ambani is much higher at ₹38.86 crore. RIL says that the fact he draws lower than what is approved for him reflects on Ambani's desire to set a personal example for salary moderation at the managerial levels. Deveshwar's remuneration rose by 24 per cent during 2014/15. His gross remuneration stood at over ₹15 crore, but his net pay was much lower at ₹7.3 crore.



SHEKHAR GHOSH

COMPILED BY NEVIN JOHN, ANILESH S. MAHAJAN AND TASLIMA KHAN

LEADERSPEAK Kanwal Jeet Jawa

Full interview with Kanwal Jeet Jawa at businesstoday.in/daikin-jawa

VIVAN MEHRA

Investing in local manufacturing has helped Daikin Airconditioning India scale up in the country, says **Kanwal Jeet Jawa,** Managing Director, as he outlines his growth strategy to **Dipak Mondal**. Excerpts:

"Be in a state of perfect imperfection"

What are your strategies to stay ahead of the competition in the segment?

With value gaining more momentum than price across many categories, the pressure on global brands to stay ahead of the customer expectation is paramount. At Daikin, we believe in doing simple things but doing them exceedingly well with a view to stay ahead of not only the competition but from consumers aspirations. Speed in thinking and execution is the cornerstone of our success.

What are the new technologies in airconditioning that can give competitive advantage?

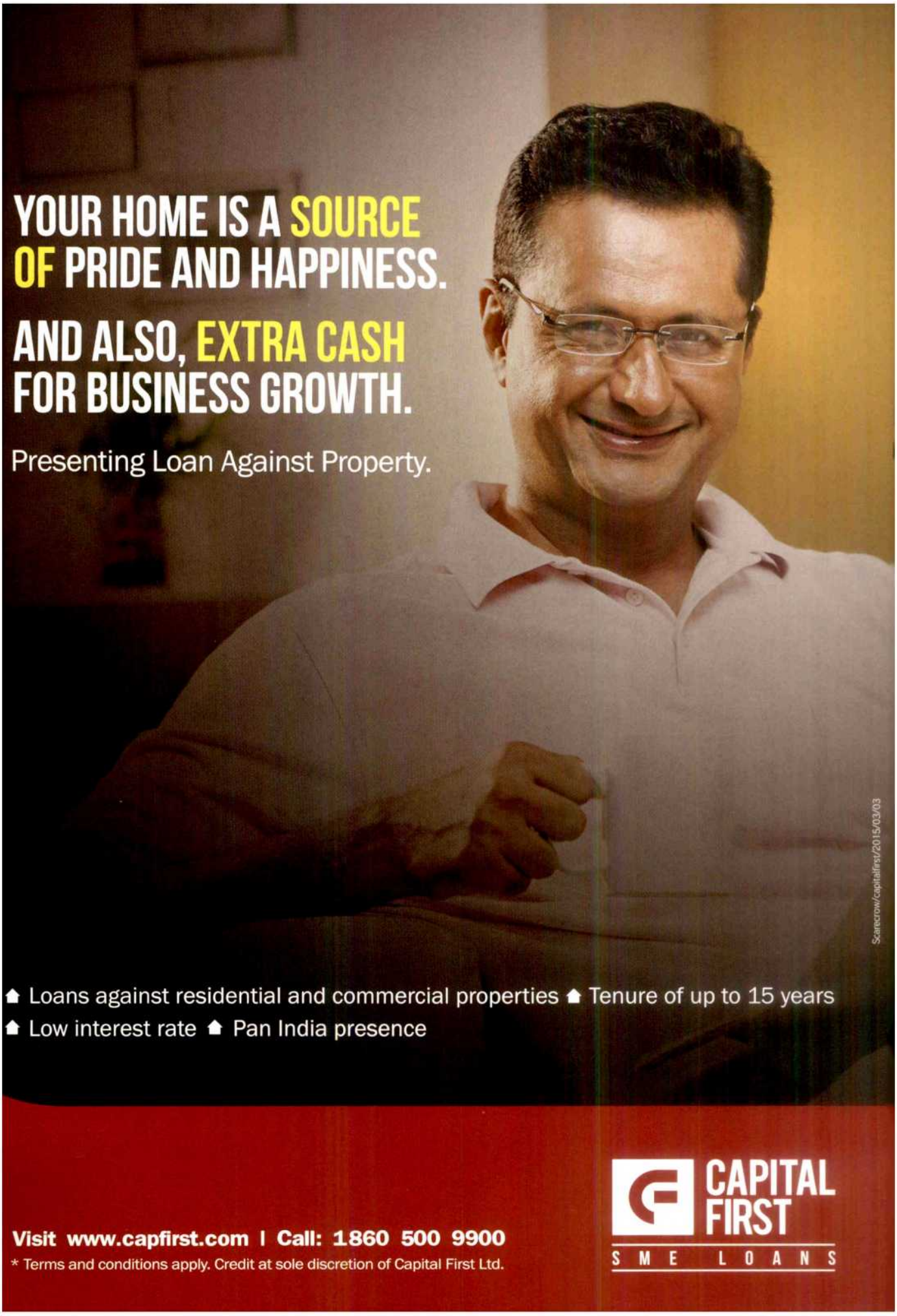
Daikin changed the rule of the inverter AC market when it came with the new refrigerant, an environment-friendly, low GWP (global warming potential) refrigerant, R32, about two years back in Japan. It is very energy-efficient as it takes less than 5 amp current compared to 10 amp current consumed by ACs with existing refrigerants. After Japan, R32 AC was also launched in India. Today of the 400,000 ACs sold by Daikin, 32 per cent are R32 ACs.

How do you keep your employees motivated?

I have a very simple theory that I keep sharing with over 1,600 Daikin employees: To remain in a state of perfect imperfection.

What are the future plans of the company?

My dream is to make Daikin India an epicentre of manufacturing that would eventually service the Central Asia and SAARC countries. We are looking to commence our second manufacturing in India to fuel this expansion. ◆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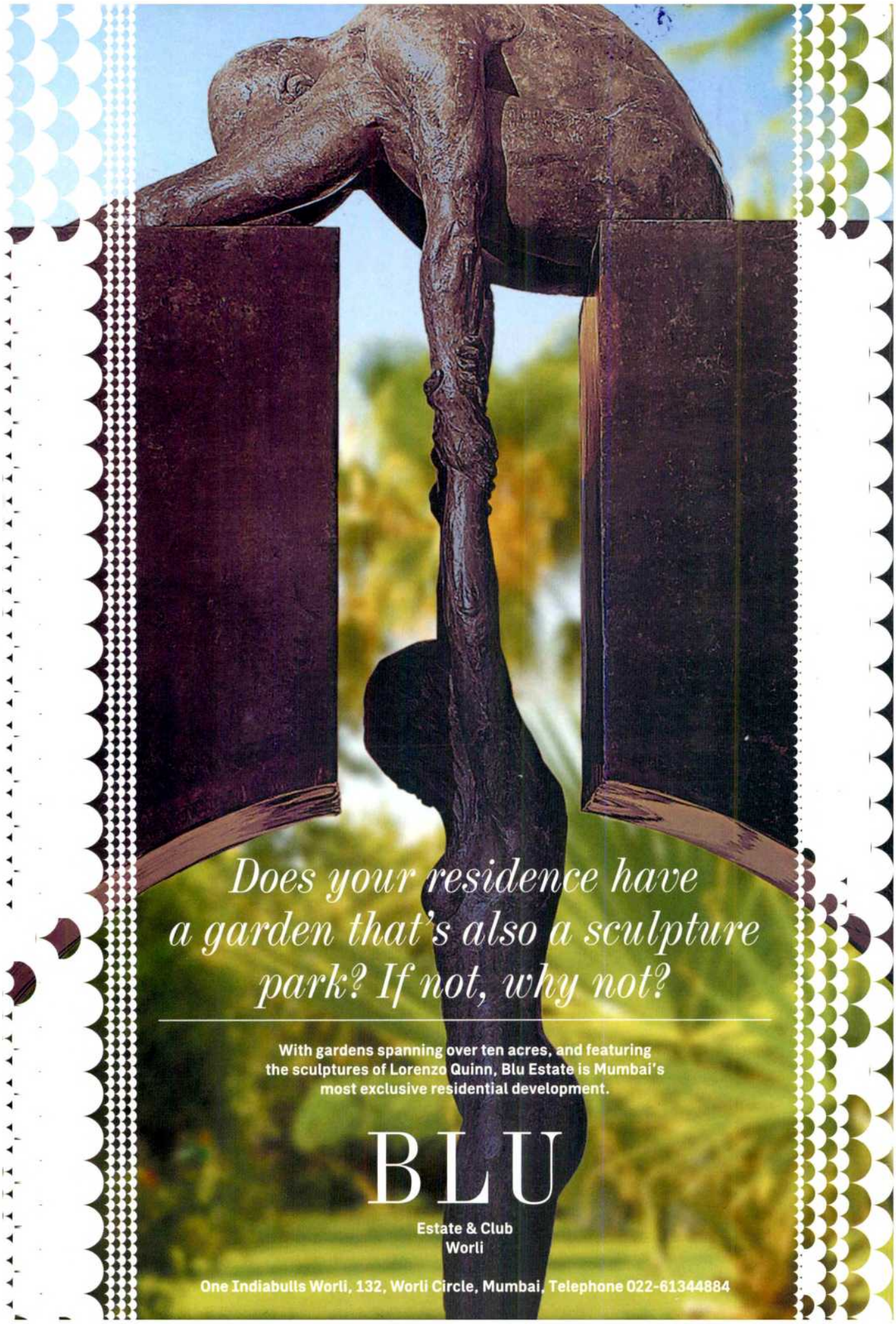
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INDIA INC. RESULTS
A Rough Ride

ARE INDIAN CEOs OVERPAID?

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From the Editor

C-Suite Salary

Are CEOs in general overpaid? More importantly, are Indian CEOs overpaid? The subject generates heated debate whenever the CEO salaries of the top 100 firms are announced, or when news breaks about the humongous compensation at which a star CEO has moved from one company to another. A recent report pointed out that most Indian CEOs get several hundred times the median pay in their companies and that has ignited the debate afresh.

The point is, there is no easy answer to the CEO salary questions. The answer changes each time the frame of reference is changed. Typically, you can try and gauge whether a particular CEO is overpaid or not based on a few parameters. For example, if you only take into account what a typical CEO gets paid vis-á-vis his middle management or entry-level employee, the answer will always be "Yes, all Indian CEOs are overpaid – and vastly overpaid at that." (Of course, the counter argument in this case can be that it is not the CEO who is overpaid, it is the entry-level employee who is underpaid and that needs rectification.)

Instead of looking at the salary gap between the top and the bottom layers of management, if you try and work out how much value a CEO has added after taking over a company, the kind of revenue and profit growth the firm has seen under his leadership, and the amount of shareholder returns he has generated during his tenure, the answer will change. Some CEOs generate enormous value and tremendous shareholder wealth per rupee they earn. Others tend to earn big salaries even though the company performance seems mediocre.

Finally, you could frame the question – whether our CEOs are overpaid or underpaid – vis-á-vis their global counterparts. In most cases, the answer would be "underpaid by a vast margin", though in rare cases, it might be the reverse.

When we started compiling and slicing CEO (and top management) compensation data for our cover story this issue, and also started speaking to CEOs and HR consultants, a few trends became visible. For one, CEO salaries in India (particularly professional CEO salaries) have been going up steadily over the past decade. This is a reflection of the increased global competition that CEOs of all big companies in India are facing. There is also a recognition that talent is fungible in today's globalised world, and, therefore, if you want top talent, you need to pay top dollar.

Of late, many global practices are being adopted while structuring CEO compensation in the country. Performance-linked pay, stock options, and severance packages are all getting the kind of attention they never got even a few years ago.

In the case of promoter CEOs – of which India has a huge number – the issues get even more complex. Some CEOs give themselves modest (by CEO standards) pay because their real income and wealth is generated by the stock prices of their shareholdings and the dividends they get annually. In a few cases, promoter CEOs give themselves huge pay packages just to make a point.

Deputy Editor Chitra Narayanan wrote our cover story with help from Principal Research Analyst Jyotindra Dubey. Our bureaus in Mumbai and Bangalore chipped in with valuable inputs and insight.

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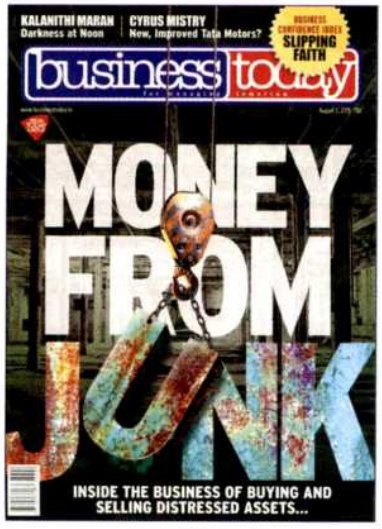

A Bright Future Beckons ARCs

This refers to your cover story on asset reconstruction companies or ARCs (*Money from Junk*, August 2). Globally, many "bargain hunters" have made fortunes by buying distressed assets for peanuts and selling them later at phenomenal rates. With the growing tribe of ARCs in India, the future of such companies looks bright. However, I feel the term "junk" used in the story seems to be a misnomer. Plants, buildings, machinery, stocks and other assets often have what is termed as a "balance future life" and, if sincere efforts are made for recovery, I feel they can be put to good use for quite a few years until they can be "milked" profitably. Bankers are partly to be blamed for creating a huge mass of NPAs by giving up recovery, rehabilitation and revival efforts which are difficult and time-consuming, compared to the ease of lending to meet new advances targets. It is high time a high powered committee of the RBI, bankers, and industry experts is formed to overhaul the system, formulate stringent policy guidelines, and ensure a healthy banking system or else be ready to face the consequences like the recent Greek tragedy in the near future.

J.S. Broca, *New Delhi*

Engaging Interview with Trout

This refers to your interview with marketing strategist Jack Trout (*Staying Ahead in the Age of Competition*, August 2). It was very interesting to go through, particularly his observation that it is the age of competition not alliances. Again, competitor orientation is more important than customer orientation for survival and that has been beautifully brought out.

T.V. Gopal, *On e-mail*

Skeleton in Marans' Cupboard

This refers to your corporate feature on the Sun Group (*Darkness at Noon*, August 2). It was a vivid description of the political clout and questionable activities of the Sun Group. No doubt the Maran family built a base initially with the active support of the DMK cadres. It helped them fight their competitors on the ground. They supported Stalin, the influential offspring of Karunanidhi, over his brother Azhagiri to extend their business frontiers. Marans also influenced public opinion through their news channels to suit their ends. Kalanidhi has the knack of remaining in the background and directing the course of events. He has sacrificed individuals for his business interests. The group is not a holy cow. The Marans and their associates should voluntarily come forward to prove their innocence instead of advancing arguments through their professionals as they are not above the law.

B. Rajasekaran, *Bangalore*

Hassle-free Net Connections a Must

This refers to your article on the Digital India programme (*Packet Loss for e-India?*, August 2). But Prime Minister Modi's scheme cannot succeed unless Internet reaches every nook and corner at cheaper rates and greater speed. Only a small percentage of the Indian population uses the Net now. To enhance its reach, free Net connectivity is vital in rural schools and colleges. Public sector enterprises, such as MTNL and BSNL, must provide hassle-free connections, while private players must reduce their costs.

Mahesh Kapasi, *New Delhi*

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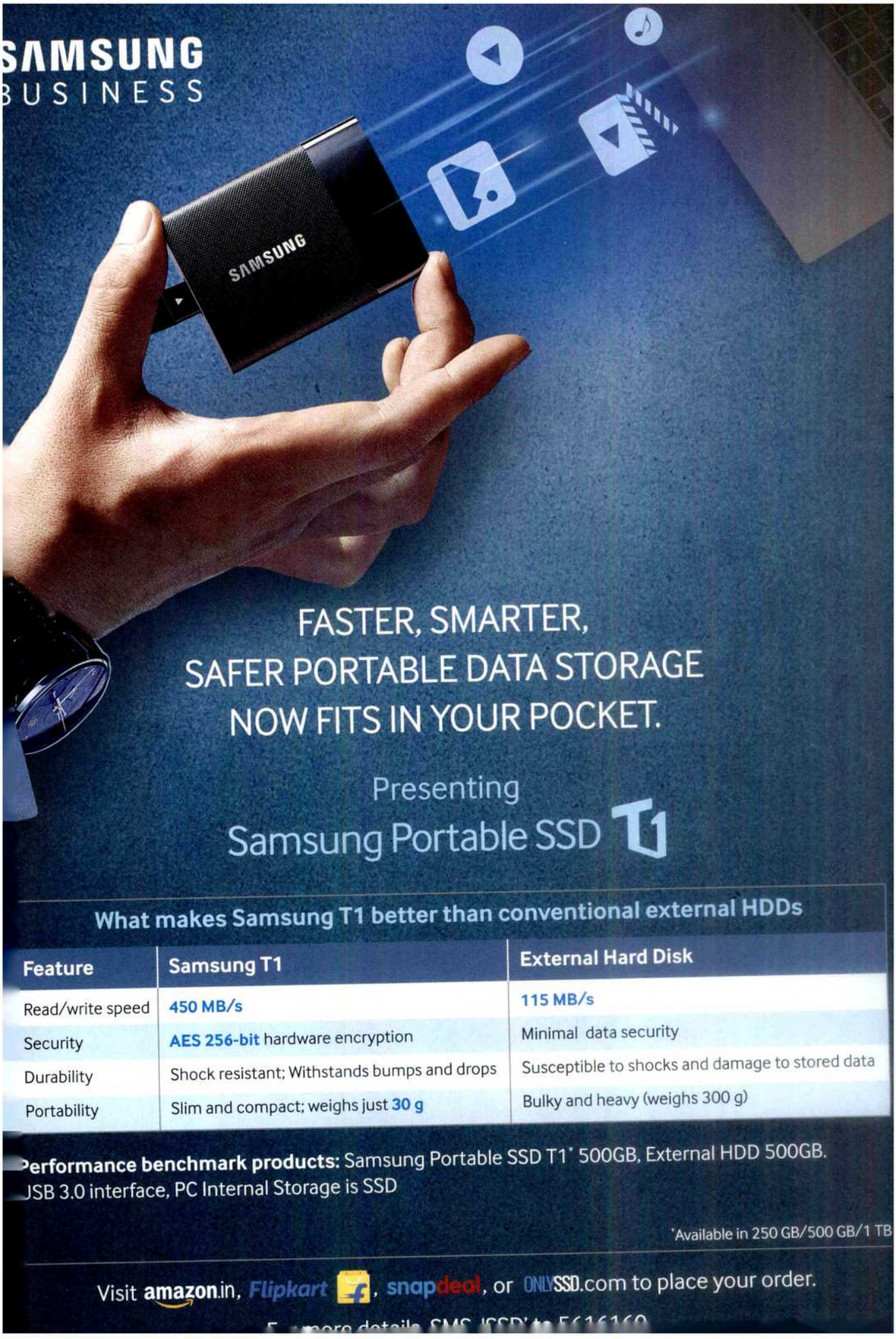

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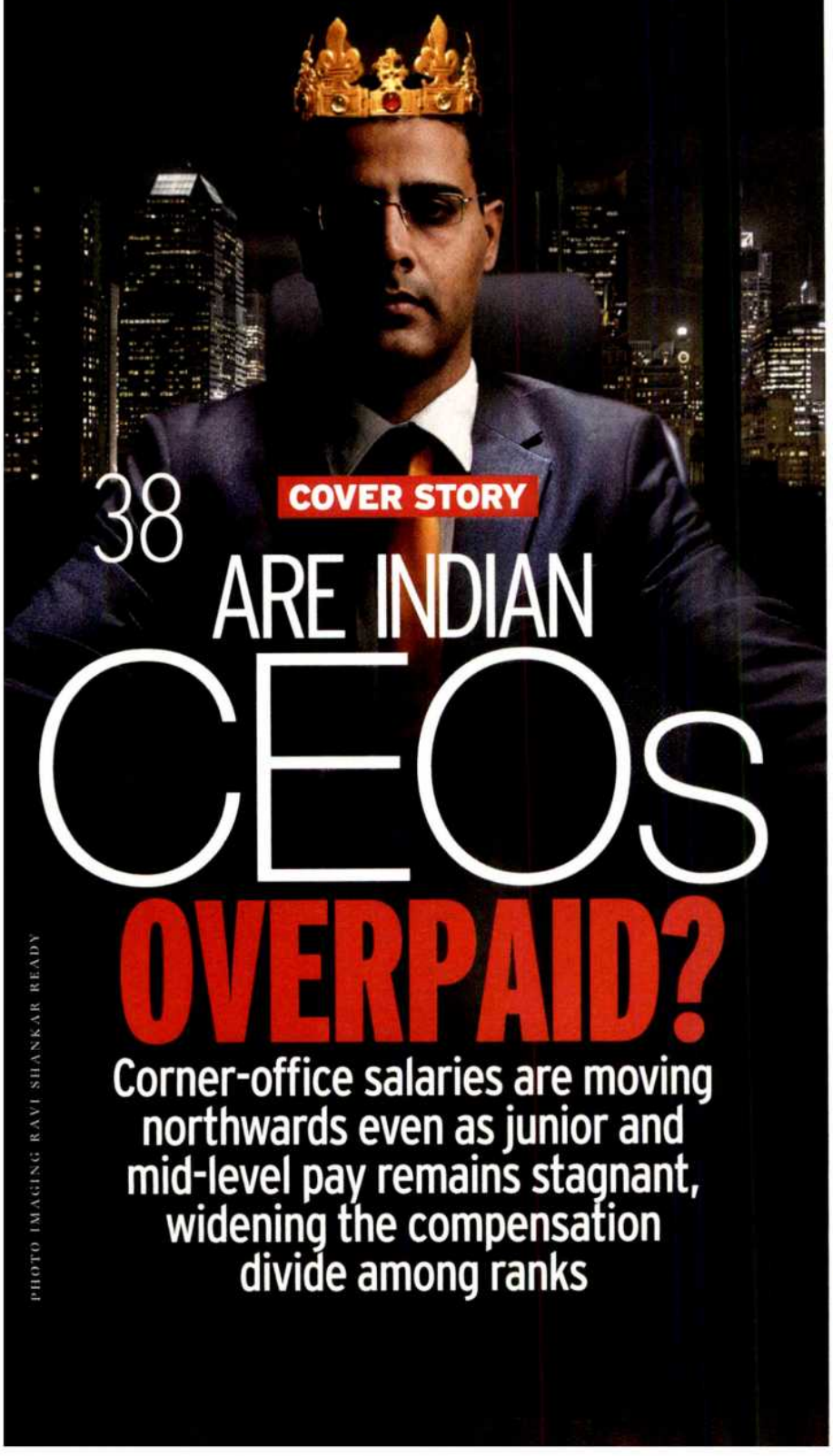

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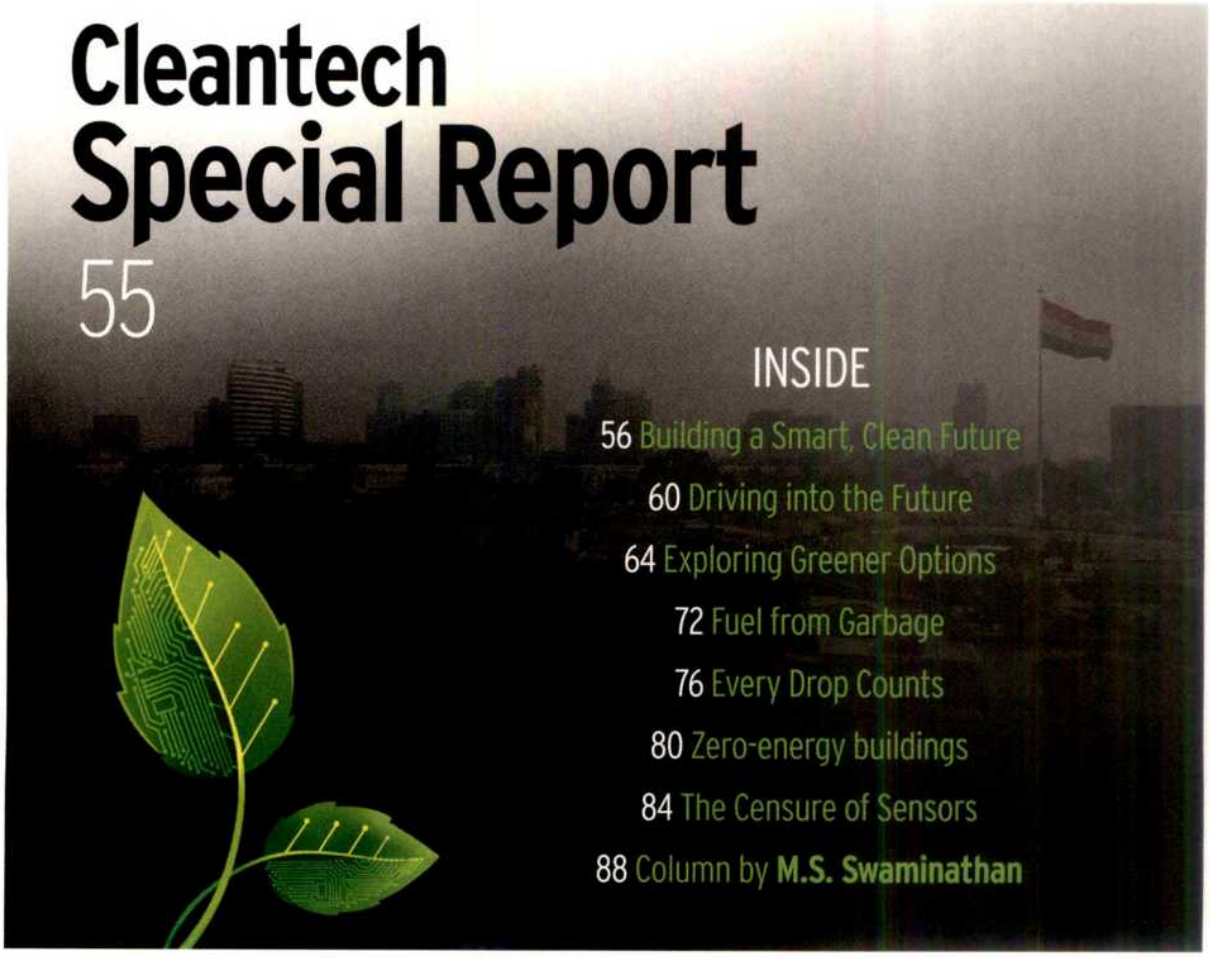

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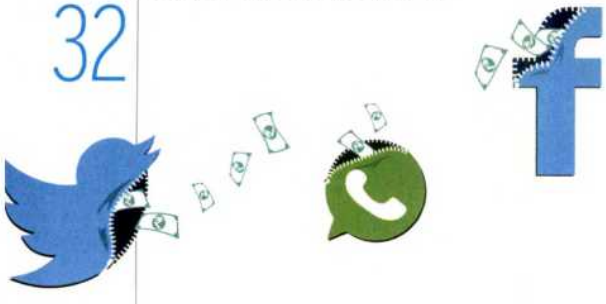

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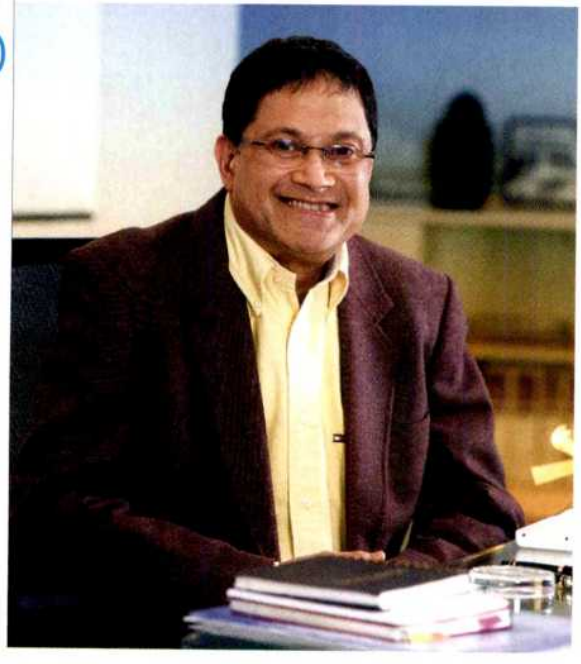

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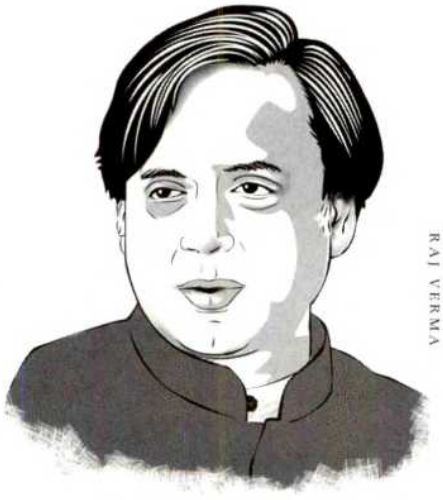
"India's experience with Britain had beneficial consequences... Our notions of the rule of law, of constitutional government, of free press, have all been fashioned in the crucible where an age-old civilisation met the dominant Empire of the day..."

Manmohan Singh, former prime minister, in his July 2005 speech at Oxford University

NOW

"India was Britain's biggest cash cow, biggest consumer of British goods and provider of high incomes for British civil servants. We literally paid for our own oppression..."

Shashi Tharoor, Congress MP, in his address as part of a recent debate on British colonialism, at Oxford University



RAJ VERMA

BELOW ₹10:

Proposed meal ticket at 'Anna' canteens by Delhi Chief Minister Arvind Kejriwal.

₹10:

Cost of a one-litre 'Anna Water' bottle. While the Delhi government has yet to calculate the financial burden on the exchequer, the 225 Amma canteens run by Tamil Nadu Chief Minister J. Jayalalithaa in the southern state, offering affordable meals to the poor, cost ₹65 crore annually.

THE POSCO PICTURE

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The cost of Posco's proposed steel plant in Odisha.

10
YEARS
Time since the proposal was mooted.

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MILLION TONNE
The plant's revised capacity, cut from 12 million tonnes originally.

Status: Posco puts project on hold; villagers start re-occupying land.

JOURNEY TO PLUTO

NASA's New Horizons spacecraft flew on humanity's first journey to Pluto, the ninth planet in our solar system. Nine mementos, including the ashes of farm boy-turned-astronomer Clyde Tombaugh, who discovered the planet 85 years ago, are part of the historic journey.

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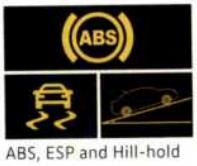

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OVER TO RAJAN

WHAT: RBI monetary policy review
WHEN: August 4

WHAT TO LOOK FOR: Will RBI Governor Raghuram Rajan cut interest rates? If he does, and if banks pass on the rate benefit to industry and consumers, it will lift sentiment in the overall economy.

30

FLYING NORMS

WHAT: New civil aviation policy
WHEN: July-end

WHAT TO LOOK FOR:
Besides, formulating a new civil aviation policy, the government is in the process of doing away with the '5/20' norms for domestic airlines. Under the norms, only carriers having been in operation for at least five years and with a fleet of at least 20 aircraft are allowed to fly on international routes. New airlines such as Vistara and AirAsia are in favour of scrapping the existing rules pertaining to international routes. Incumbent airlines such as IndiGo and Jet Airways want the rules to stay.

1

UK WORK BAN

WHAT: New British work rules
WHEN: August

WHAT TO LOOK FOR: The UK is set to ban overseas students from outside the European Union to work while they study in the country from August. The move will hit students from countries such as India. Non-EU students in the UK accounted for 121,000 immigrants last year. Only 51,000 students of those foreign students left the UK, leaving a net influx of 70,000. Britain is hoping to stop immigrants using colleges as a 'back door to a British visa' and banned 870 'bogus colleges' from accepting foreign students.

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WINDOW TO THE WORLD

WHAT: Windows 10 launch
WHEN: July 29
WHERE: Delhi, 12 other global cities

WHAT TO LOOK FOR: India, and 12 other nations, will host the launch of the latest version of the popular operating system. Microsoft will launch the successor to Windows 8.1 operating system across 190 nations as a free upgrade or with new PCs and tablets. Windows 10 has innovations such as Cortana, Microsoft Edge and the Xbox app.

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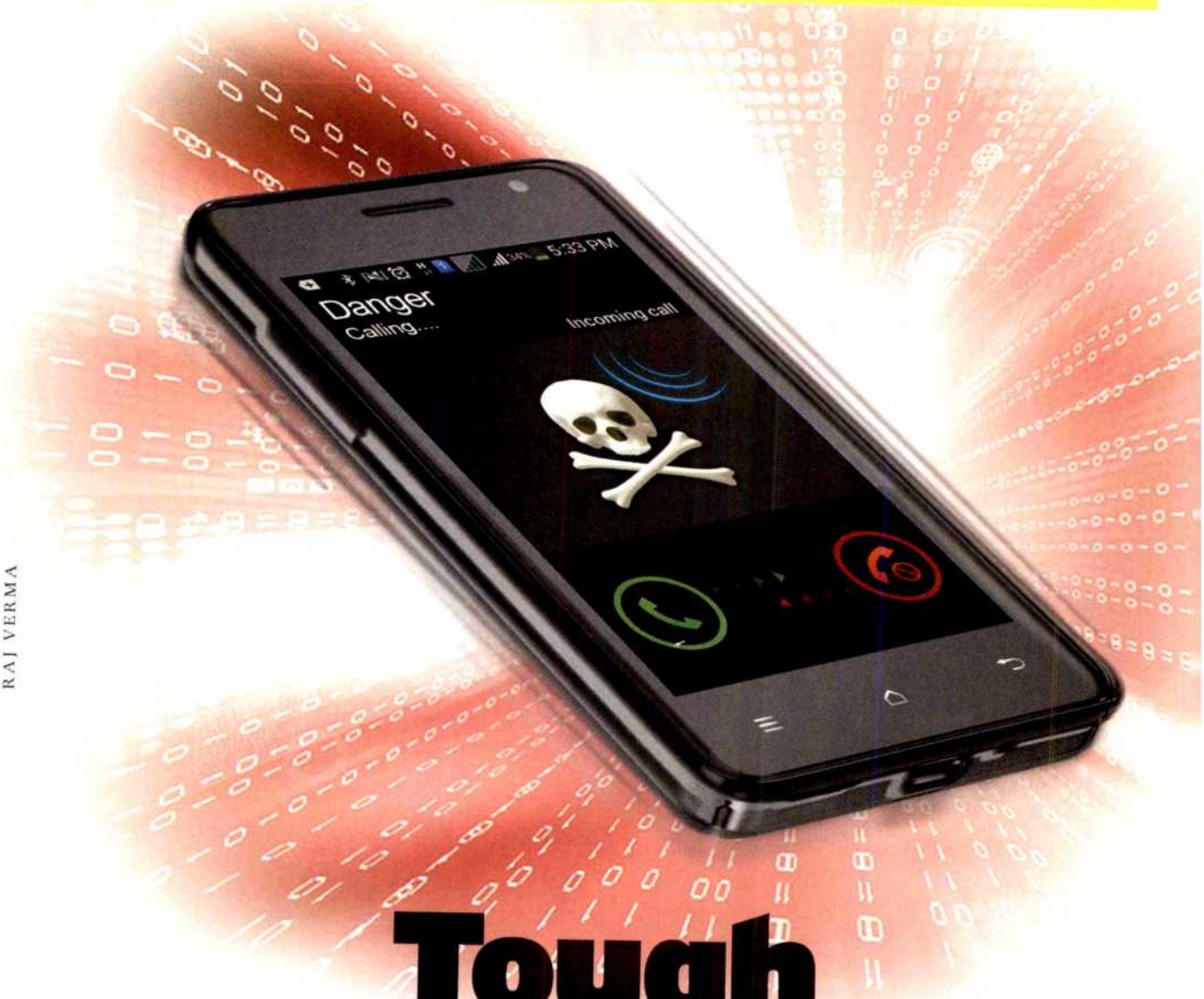

RAJ VERMA

Tough Times Ahead

The DoT panel's recommendations on net neutrality could make it difficult for OTT players to operate in India. By MANU KAUSHIK

A recent Department of Telecommunications (DoT) panel report on net neutrality has opened a Pandora's box. The 110-page report was supposed to define the rules of net neutrality in the Indian context and clear the air around the simmering feud between telecom operators and OTT (over-the-top) service players, primarily led by WhatsApp, Skype and Viber.

But it seems the report has not gone all the way to settle the issue. In fact, the report has made a series of recommendations that raise more questions than answers. Several recommendations are open-ended, confusing and subject to various interpretations.

Take, for instance, zero-rating plans. While the panel has recognised zero-rating services as "walled gardens", it has recommended that such schemes, before their launch, need to be vetted by the Telecom Regulatory Authority of India (TRAI) to determine whether they conform to the principles of net neutrality. If TRAI approval doesn't come within a reasonable time, the scheme would be deemed approved.

Zero-rating packages are offered by telecom operators by tying up with content providers (OTTs and e-retailers) to provide free Internet access to end consumers. In zero-rating plans, content providers pay for data charges on behalf of users. For example, Bharti Airtel launched Airtel Zero in April that offered free access to mobile apps. Companies like Flipkart became part of Airtel Zero initially but opted out after a huge social media backlash.

On the other hand, the panel has proposed a blanket ban on loosely-similar services like Internet.org, which is a partnership between Facebook and companies such as Samsung, Ericsson, Reliance Communications and Qualcomm to give Internet access to users in developing countries (like India) without any payment towards data charges. "Collaborations between TSPs [telecom service providers] and content providers that enable such gatekeeping role to be played by any entity should be actively discouraged," says the report.

Industry veteran T.V. Ramachandran, former director general of the Cellular Operators Association of India, says it's a job only half-done. "The report nicely says that telecom operators have to abide by the core principles of net neutrality. If implemented, the recommendations would create disputes," he adds.

At the core of the net neutrality debate is revenue cannibalization of telecom operators due to the rise of communication services provided by OTTs. The report has made some recommendations to tackle the issue.

The Internet ecosystem is broadly divided in two areas – infrastructure layer and application layer. The infrastructure layer belongs to telecom operators such as Bharti Airtel, Vodafone India and others who have spent a huge amount of money – estimated to be over ₹7.5 trillion – to build infrastructure over the years. The application layer includes websites and apps that are scaring off operators. While about 95 per cent of these apps, including e-commerce, taxi and ticketing apps, don't pose a threat to telecom operators, their biggest worry comes from communication apps such as WhatsApp, Viber and Skype.

The report suggests that domestic calls made through voice over Internet protocol (VoIP) services of Skype and others should be regulated while international calls made through the same channel should be kept out of the regulatory purview. "The committee feels that existence of a price arbitrage between TSPs' services and OTT communications services resulting from a non-level playing field needs to be taken note of. TSPs may become reluctant to invest in expansion of broadband infrastructure if the possibility exists of competitive OTT communication services cannibalising expected increase in revenues from such investments," the report highlights.

But why regulate only domestic VoIP calls, and not international calls and messaging services? The DoT panel says that while both international VoIP calls and messaging has affected revenues of telcos, neither had the effect of completely disrupting their revenue models. As per TRAI data, international voice calls contribute just 3.45 per cent to the gross revenues of telcos. Also, the international voice calling segment has shown stabilisation even during the rise of VoIP services.

The average revenue realization for telcos on a VoIP call is around ₹0.06 per minute, which is far lower than revenue realisation from conventional calls – ₹0.36. A one per cent shift in voice traffic from conventional voice

WHAT THE DoT PANEL REPORT SAYS...

1. Defines the principles of net neutrality
2. Bans blocking, throttling and paid prioritisation
3. Allows zero-ratings services subject to TRAI's clearance
4. Bans services like Internet.org
5. Asks for regulation of domestic VoIP calls through licensing
6. Doesn't mandate licensing for international VoIP calls by OTTs

calls to VoIP calls results in ₹1,200 crore revenue loss for telcos. The loss then limits telcos' ability to build more telecom infrastructure that would require an investment of ₹5 trillion over the next five to six years. Since a large chunk of revenues is generated from domestic calls, the DoT panel has proposed to regulate them to ensure "a level playing field".

Telcos complain that OTT players use their infrastructure for free and eat into their revenues. For several years, the telcos didn't mind the presence of OTTs because these apps led to a rise in data consumption thereby opening a new revenue stream for telcos. The threat of OTTs was recognised recently, leading to telcos asking regulator to bring OTTs under regulatory purview.

ADVANTAGE OTT

Revenue realisation on a one-minute call for telecom operators	**₹0.36** for conventional calls	**₹0.06** for OTT calls
Message cost	**₹0.16** for a conventional message	**₹0.01** for OTT message

Another contentious issue is blocking and throttling of competing apps or websites by telcos. The report explicitly says telcos should not engage in blocking, throttling or paid prioritization of any lawful content.

How practical are these recommendations? If OTT players offering communication services are required to obtain unified licences, they will be subjected to security obligations, will have to declare their financials and will be taxed in India. At the moment, most OTTs are not required to meet these statutory requirements.

In all likelihood, OTTs will continue to operate in the country but they could also look for exiting India or start charging for their services. WhatsApp, for instance, might start charging users after one year of free service expires. The entry fee for the unified licence is ₹15 crore. Subsequently, an annual license fee is levied at six, eight and 10 per cent – depending upon the service areas – of the adjusted gross revenue of the licence holder.

However, there could be some relief for OTTs. Under the National Telecom Policy 2012, the acquisition of licence is delinked from the spectrum. This means OTTs don't have to necessarily acquire the expensive airwaves if they were to obtain telecom licences.

Subho Ray, President of Internet & Mobile Association of India (IAMAI), a body that represents online and mobile value-added services industry, says it's a wrong approach to solve the problem. "There is no regulatory arbitrage; there is only cost arbitrage. I cannot figure out how removal of regulatory arbitrage will remove cost arbitrage. This part has not been shown by this [DoT] paper," he says, adding that the DoT panel has tried to strike a balance.

"It is a complicated issue. The way I look at this report is that the DoT panel thought they have been favourable to Internet companies by putting out the principles of net neutrality. So, in order to balance that, they wanted to give something to the operators as well," says Ray.

What's next? The report says the views expressed in the report are not of the government. It has asked for comments on the report from all stakeholders. Meanwhile, TRAI is already working on its recommendations, which will be sent to the DoT for examination. Experts say that with the TRAI chairman's post lying vacant, work has stalled at the regulator's end. "In TRAI, nothing moves without the chairman. The chairman's thinking directs the entire organisation," says a telecom analyst.

The recommendations of TRAI and the DoT panel will be put up before the Telecom Commission and the telecom minister will take the final view. But there's a catch. Ramachandran says telcos and the government have a running agreement. "Before the government brings about any changes in the policy, the telcos have to agree to it, otherwise it could be disputed," he says.

It seems there's a long road ahead before a final policy is drafted. ◆

IN ALL LIKELIHOOD, OTTS WILL CONTINUE TO OPERATE IN THE COUNTRY BUT THEY COULD ALSO LOOK FOR EXITING INDIA OR START CHARGING FOR THEIR SERVICES

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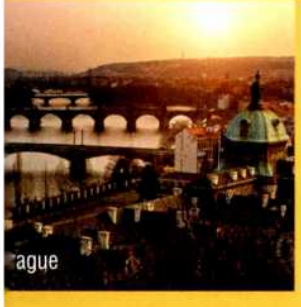

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Merger Pangs

Will Sun Pharma be able to manage the merger with the loss-making Ranbaxy without hurting itself? By P.B. JAYAKUMAR

Sun Pharma Chairman Dilip Shangvi: Ringing alarm bells

Forget big profit days of the past and don't be surprised to hear about harsh decisions and gloomy outlook from the company in the next one to two years. This was the essence of what Dilip Shanghvi, Founder and Managing Director of India's largest drug company, Sun Pharmaceutical, told investors on July 20.

The Sun Pharma stock tanked 15 per cent the following day with Shanghvi saying that the 2015/16 consolidated revenues would remain flat, or may even decline. The profits, too, could be hit by expenses and charges arising out of the integration of Ranbaxy Laboratories, which it had acquired last year, as well as due to regulatory issues.

AFTER THE MERGER WITH RANBAXY, SUN'S PROFIT MARGINS HAVE FALLEN FROM 32-35 PER CENT TO 18 PER CENT

There are several reasons why investors are not happy. Before buying Ranbaxy, Sun clocked sales of ₹16,200 crore (2013/14). Its net profit margins for five years to 2013/14 were 32-35 per cent, while that of its top 10 peers was between 9 per cent and 14 per cent. Sun's US formulation business, which contributes 60 per cent to its revenues, grew at a compounded annual growth rate of 45 per cent during the period. However, though its 2014/15 sales (after the merger) rose to ₹27,600 crore, net profit margins were just 18 per cent. EBITDA (earnings before interest, taxes, depreciation and amortization) margins also fell from 45 per cent to 29 per cent. "Merger-related woes were evident after the fourth quarter of 2014/15, when revenues and operating profit margins (OPMs) were impacted. Adjusting for merger-related costs, OPMs were 26-27 per cent," says Sarabjit Kour Nangra, Vice President, Research (Pharma), Angel Broking.

"Sun's fourth-quarter earnings and 2015/16 revenue guidance have been disappointing, leading to earnings downgrades. However, the core investment arguments remain intact," say IDFC analysts Nitin Agarwal and Param Desai.

But the question is, how will Shanghvi bring back Sun Pharma's golden days, if at all?

"We are not a top line-driven company. Our focus will be high-value specialty generics and differentiated products," says Shanghvi. Broadly, his integration plan revolves around six points – cultural integration, cGMP compliance for all facilities, more product filings,

productivity improvement, revenue synergy and ensuring a more efficient procurement and supply chain. cGMP refers to current good manufacturing practices.

Industry observers say this can only be achieved if some harsh decisions, such as closure of plants and trimming of workforce and product range, are taken. Unlike Sun, which is focused on the US, Ranbaxy's business is spread across continents. Many of its operations are either unprofitable or have low margins. Shanghvi has hinted at hiving off some of Ranbaxy's non-core businesses. Also, instead of trying to restore the quality of all four facilities of Ranbaxy under the US drug regulator's scanner – Mohali, Dewas, Poanta Sahib and Toansa – Sun will prioritise and ensure compliance at just one or two facilities. With the acquisition of Ranbaxy, Sun now has 45 manufacturing facilities and, therefore, moving products to other plants is an option.

Nangra of Angel Broking says 29-30 per cent margins from 2016/17 should not be a problem after Sun writes off all merger costs in 2015/16. If the integration goes off smoothly, Sun will get synergy benefits of $280 million to $300 million by 2017/18, says Shanghvi.

The other problem for Sun is about regulatory issues at its Halol facility in the US, which accounts for over ₹4,000 crore revenues. Remedial measures at Halol continue to create supply constraints for various product lines, particularly injectables.

Sun is executing another plan to maintain profits. It is building a marketing team of 40-50 people in the US to sell its new ophthalmic products and in-licensed psoriasis drug MK-3222 (Tildrakizumab), which is in the final phase of trials. It is also planning to sell branded over-the-counter and private label products in the US.

If the plan works, what will Shanghvi's next move be? The purchase of Ranbaxy has already positioned Sun as the largest domestic and emerging market player, well-placed to pursue further transformational merger and acquisition deals, and evolve as a global specialty major, say IDFC analysts.

Sun is now the fifth-largest specialty generics company in the world with revenues of $5.1 billion. If it is able to acquire a company with revenues of over one billion dollars, it can overtake both Actavis and Mylan, which have revenues of close to $6.4 billion, each, to become the third-largest after the $9.8-billion Teva and the $8.5-billion Sandoz, as per the 2014 revenues.

However, any escalation of regulatory issues in the US will be a big negative, say analysts. "So far we have not come across anything drastic or surprising related to the integration," says Shanghvi.

But considering the business history and complexity of Ranbaxy's business, integrating the company with Sun will be tough for Shanghvi and his team, and big growth may take some time. For the present, the biggest challenge is to go back to the high profitability of pre-Ranbaxy days. ◆

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SHANGHVI HAS HINTED AT HIVING OFF SOME OF RANBAXY'S NON-CORE BUSINESSES

SUN PHARMA: CHANGING MIX

FY14 SALES
₹16,200
crore

BREAK-UP

US
60%

INDIA BRANDED FORMULATIONS
23%

REST OF THE WORLD
12%

API & OTHERS
5%

(Post Ranbaxy Acquisition)
FY15 SALES
₹27,600
crore

BREAK-UP

US FORMULATIONS
50%

INDIA BRANDED FORMULATIONS
24%

REST OF THE WORLD
22%

API & OTHERS
4%

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COLORING
GREYS.
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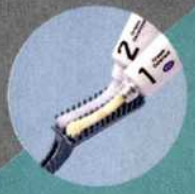

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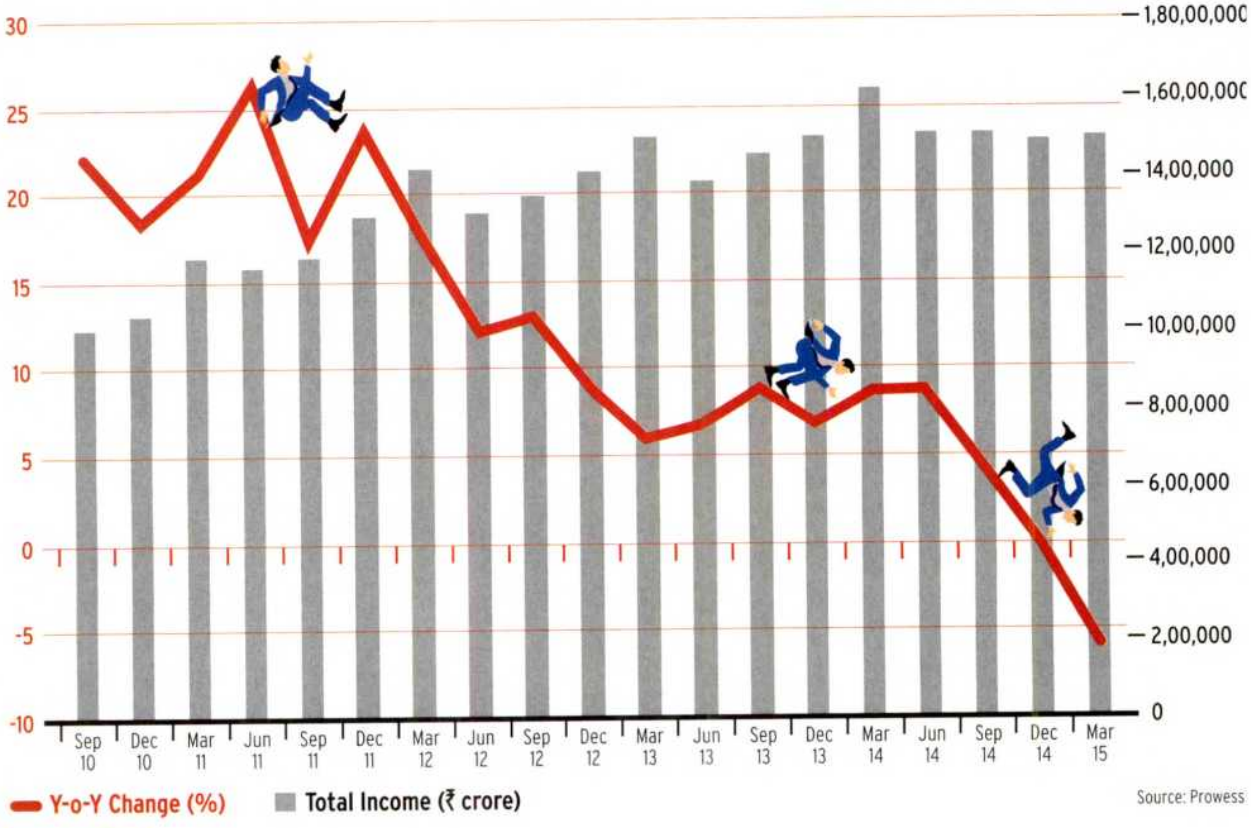

Source: Prowess

A Rough Ride

The fourth quarter of 2014/15 was a washout for corporate India with revenues falling 5.8 per cent. By NITI KIRAN

For India Inc, the fourth quarter of 2014/15 turned out to be the worst in the last five years. The total revenue of 4,198 companies whose results *BT* analysed dropped 5.8 per cent year-on-year, the steepest fall in the last 20 quarters. The top line of these companies had registered double-digit growth between June 2010 and September 2012. Since then, it has been a downhill ride. The aggregate net profit has now shrunk for two quarters in a row – 32 per cent in the third quarter and 15 per cent in the fourth quarter. The net profit margin was 6.8 per cent in the fourth quarter of 2014/15, down from 7.3 per cent in the same period of 2013/14.

EXCLUDING FINANCE AND PETROLEUM COMPANIES, THE REVENUE OF THE SAMPLE GREW 0.6 PER CENT YEAR-ON-YEAR

The biggest reasons for the pressure on companies are fall in commodity prices as well as rural consumption. "Corporate earnings have been hit by a decline in prices of commodities that hurt their manufacturers as well as a fall in consumption in rural areas due to bad weather (which hit crop output) and slow growth in prices of farm output," says Ajay Srinivasan, Director, CRISIL Research. "A slowdown in investment-related sectors and pressure on export-linked sectors are also impacting India Inc's performance," he says.

Prices of most commodities are expected to keep falling in 2015, according to a report released by the World Bank early this year. Global food prices, which are down 20 per cent since 2011, are projected to fall 4 per cent in 2015. While oil has seen the most dramatic fall in prices, other commodities have also been weakening of late. So, excluding finance and petroleum companies, the

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total revenue of the sample grew 0.6 per cent year-on-year to ₹8,24,033 crore. Profits, though, fell 28 per cent.

On the consumption side, subdued growth in rural wages and lower realisations from rabi crops have impacted demand in rural areas. Rural wages had risen over 10 per cent a year on average between 2010/11 and 2013/14. Between May 2014 and May 2015, growth was just 5.2 per cent.

Investment sentiment, too, is bearish, with gross capital formation as a percentage of gross domestic product (GDP at current prices) falling nearly six percentage points to 32.3 per cent in three years to 2013/14. Ravi Shenoy, Vice President, Midcap Research, Motilal Oswal Securities, says, "Sectors such as cement, steel and power are sitting on surplus capacity and 10 per cent-plus GDP growth is needed for the next two years for fresh investments to come in. One exception is non-conventional energy, a focus of this government."

IN NEGATIVE TERRITORY

Financial and non-financial services are the only bright spots

Total income (y-o-y rise, in %)	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15
NON-FINANCE SECTOR	20.5	16.0	4.4	8.2	-10.3
MANUFACTURING	22.3	19.0	4.0	6.1	-14.5
MINING	12.1	2.8	12.8	1.4	-9.0
ELECTRICITY	22.0	13.1	10.8	16.8	-5.4
CONSTRUCTION & REAL ESTATE	12.9	14.4	-4.8	-1.2	-3.8
NON-FINANCIAL SERVICES	16.4	5.4	7.7	22.2	6.3
FINANCIAL SERVICES SECTOR	26.3	27.3	14.0	11.4	15.2

Source: Prowess

EXPENSES AS A PERCENTAGE OF NET SALES HAVE RISEN 2.4 PERCENTAGE POINTS OVER THE LAST FOUR QUARTERS

The pressure on companies is reflected in their rising expenses too. Total expenses as a percentage of net sales have risen 2.4 percentage points over the last four quarters. Employee cost as a percentage of expenses rose from 7.1 per cent in June 2014 to 8 per cent in March 2015.

Companies in manufacturing and mining sectors were the worst hit, dragging down revenues and profits of the non-finance sector by 10.3 per cent and 29.12, respectively. "The key challenge for manufacturing and mining sectors will be the waning benefit of cheap domestic iron ore, increase in taxes and weakness in Chinese demand," says Kamlesh Bagmar, Senior Research Analyst, Prabhudas Lilladher.

Electricity and construction and real estate sectors also felt the heat with aggregate revenues falling 5.35 per cent and 3.7 per cent, respectively.

Some respite came from the financial services sector, which expanded revenues by 15.1 per cent. Tarun Sisodia, Head of Research, Anand Rathi Financial Services, says, "The main reason was higher treasury gains in 2014/15 and lower income in 2013/14. The treasury income of banks was significantly higher in 2014/15 on account of decline in G-Sec yields." The key thing to watch out for in the short to medium term is the asset quality of banks and non-banking finance companies.

Experts say things are expected to pick up only slowly. "The base effect of third and fourth quarters of 2014/15 will be reflected in third and fourth quarters of 2015/16," says Shenoy. He expects recovery in sales and earnings from the third quarter of 2015/16 and 22 per cent and 30 per cent earnings growth for Sensex companies in third and fourth quarters, respectively, as benefits of lower interest rates are realised.

The road to recovery is not easy and will require the government to take a number of policy initiatives to boost confidence. "Keeping inflation in check and ensuring supply of food products even if the monsoon faces hurdles should be one of the top priorities. Passage of the GST (Goods and Services Tax) Bill in Parliament and a roadmap for the implementation of the tax from April 1, 2016, will be a confidence booster," says Shenoy of Motilal Oswal. Controlling the fall in asset quality of public-sector banks and countering the slowdown in capital expenditure is also the need of the hour.

With results for the first quarter of 2015/16 already trickling in, corporate India needs a lot of luck to turn things around. ◆

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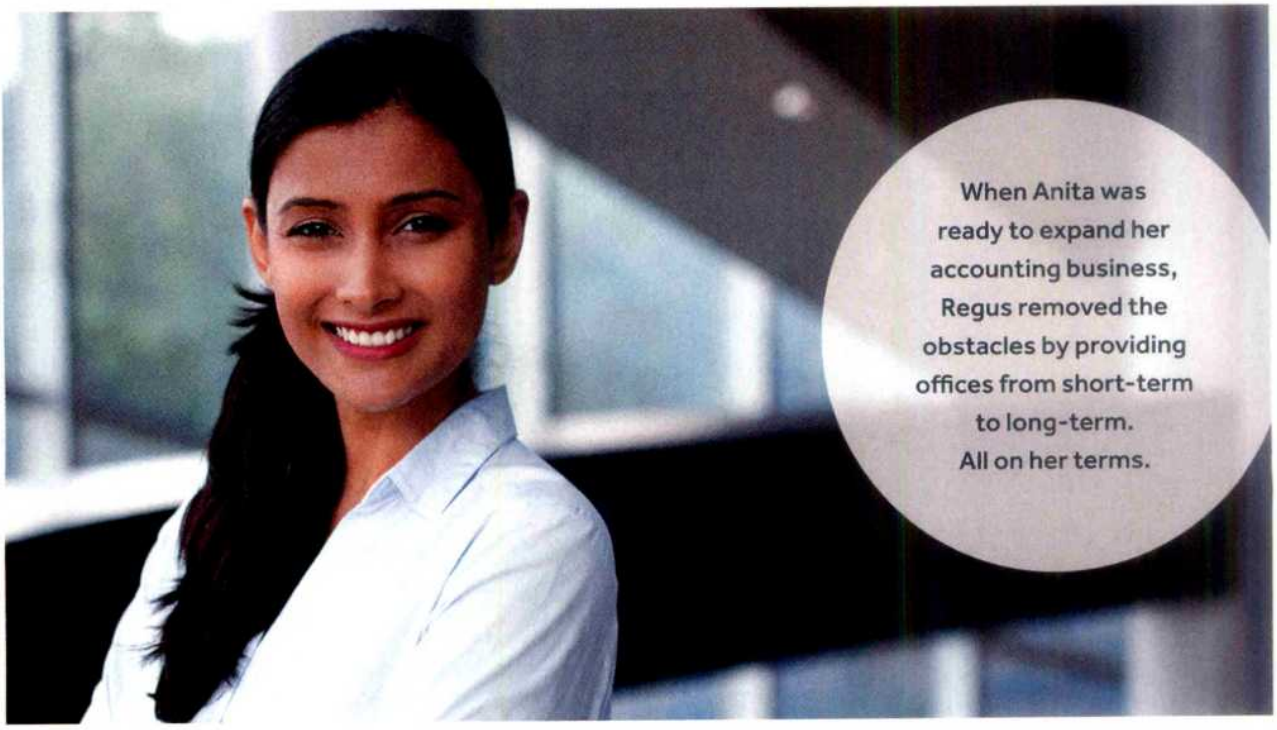

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Artist's image of the new capital. Chief Minister N. Chandrababu Naidu says he will build a world-class city

Eyeing Capital Gains

Amaravati, the proposed new capital of Andhra Pradesh, holds out promise but also faces a funding challenge. By E. KUMAR SHARMA

NAIDU WANTS TO SEE WORK ON THE CAPITAL PROCEED QUICKLY SO HE CAN SHOWCASE IT AS AN ACHIEVEMENT BEFORE THE NEXT ASSEMBLY POLLS IN 2019

The master plans for Andhra Pradesh's new capital and the region around it have been submitted. Chief Minister N. Chandrababu Naidu wants to lay the foundation stone of Amaravati – the name derived from Indra's kingdom in Hindu mythology (and also covering a small town with the same name in the region) – on October 22. The city, being built from scratch, will be located in Guntur district, between the towns of Guntur and Vijayawada. A new capital became necessary after Telangana was carved out of Andhra Pradesh in June last year, though Hyderabad will remain the capital of both states for 10 years. "We will build a world-class city which will prosper, grow and create wealth for our people," Naidu told *BT*. He is anxious to see work on the new capital begin and proceed quickly so he can showcase it as an achievement before the next assembly polls in 2019.

The plans have been prepared by two Singapore agencies, Surbana International Consultants and Jurong Consultants, after Naidu sought advice from the Singapore government. The plans have three components – a core "seed capital area" of 16.9 sq km, which will house the seat of government, the business districts and homes of about 300,000 people; a larger capital city around it spread over 217 sq km; and finally an overall capital region of 7,420 sq km. Incidentally, three villages – Lingayapalem, Tallayapalem and Uddandarayapalem – are falling within the seed capital region. There is no plan currently to move these villages and how they will be accommodated needs to be seen.

According to an official at the Capital Region Development Authority (CRDA), project developers are likely to be chosen using the 'Swiss challenge' method. Under this system, Singaporean and perhaps some Japanese developers would prepare the detailed project reports and submit to the state government for evaluation with their bids. The Andhra Pradesh government would then call for third-party bidders to make counter-bids. The origi-

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- Shri Narendra Modi
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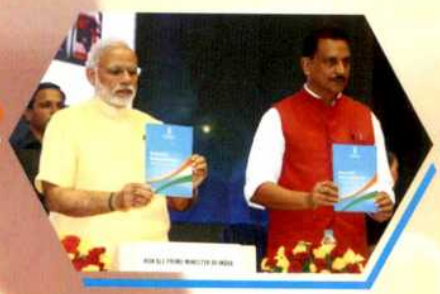

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On the occasion of World Youth Skills Day, the Skill India Mission was launched on 15th July 2015 by Hon'ble Prime Minister Shri Narendra Modi. Union Ministers Shri Arun Jaitley, Shri Manohar Parrikar, Shri Suresh Prabhu, Shri Anant Geete, Shri Jagat Prakash Nadda, Shri Ananth Kumar, Shri Narendra Singh Tomar, Shri Thaawar Chand Gehlot, Shri Piyush Goyal, Shri Santosh Kumar Gangwar and Shri Rajiv Pratap Rudy, Minister of State (Independent Charge) for Skill Development and Entrepreneurship were present on the occasion as Guests of Honour.

Several Chief Ministers, State Ministers, Secretaries to the Government of India and other representatives from central and state governments were also present at the event. Foreign dignitaries, including Ambassadors and High Commissioners, senior industry leaders, representatives of multilateral organizations and from industry associations also attended the two-hour long main function. ITI faculty, skill trainers and trainees from a range of training programs also participated.

"Key priority is to create employment opportunities for the youth as well as create avenues to skill them in a structured manner to improve their employability."

- Shri Narendra Modi
Hon'ble Prime Minister

STRATEGIC PARTNERSHIPS with Ministry of Defence, Ministry of Railways, Ministry of Overseas Indian Affairs, Ministry of Heavy Industries & Public Enterprises, Ministry of Health & Family Welfare, Ministry of Chemicals and Fertilizers, Ministry of Steel, Ministry of Petroleum & Natural Gas, Ministry of Coal, Ministry of Power, Ministry of New and Renewable Energy, Ministry of Social Justice and Empowerment

Prime Minister Shri Narendra Modi releasing the National Skill Development Mission document at the launch of the Skill India Mission on the occasion of the World Youth Skills Day in New Delhi on July 15, 2015. Union Ministers, Shri Arun Jaitley, Shri Manohar Parrikar, Shri Suresh Prabhu, Shri Anant Geete, Shri Jagat Prakash Nadda, Shri Ananth Kumar, Shri Narendra Singh Tomar, Shri Thaawar Chand Gehlot, Shri Piyush Goyal, Shri Santosh Kumar Gangwar and Shri Rajiv Pratap Rudy are also seen.

nal bidders would then have the right to either match these bids or improve on them or refuse to bid again. The contract goes to whoever has made a better bid.

Though state officials say costs are still being worked out, it has been estimated that building the seed capital area alone will cost around ₹20,000 crore, while the entire project will be around ₹1.5 lakh crore. Where will the money come from? State officials expect the Centre to release at least ₹1,000 crore annually for the next three years, but a big funding gap will still remain. Andhra Pradesh will have to either borrow from banks by issuing bonds or approach global funding agencies such as the World Bank or the Asian Development Bank. The latter option has its limitations as the Centre is likely to put a cap on funds any state can raise externally.

The debt, however it is raised, could impact the state's fiscal deficit. But officials are optimistic. "The overall costing as per the K.C. Sivaramakrishnan Committee report is around ₹1.5 lakh crore. It may appear intimidating from an overall perspective, but if you break it down into individual projects, many may be bankable, with some getting assured funding from government and some funded by the market," says CRDA Commissioner N. Srikanth.

The 14th Finance Commission's recommendations, which increased the states' share of the Centre's tax revenue from 32 to 42 per cent, gave Andhra Pradesh additional central funds of around ₹12,000 crore a year – or ₹60,000 crore over five years – but this may not contribute much to the development of Amaravati. The state government has committed itself to salary hikes for its employees amounting to ₹25,000 crore, while fulfilling its electoral promise of waiving farms loans will cost another ₹35,000 crore.

Some are also apprehensive that the Singapore model of city development may be blindly superimposed on Amaravati, without addressing local needs or cultural elements, but Srikanth allays such fears. "The broad contours of the chief minister's vision and his consultations with local officials have been shared with the Singapore consultants, on the basis of which they prepared the master plan," he says.

Naidu's track record in urban development is impressive – Hyderabad's IT hub, Cyberabad, was built during his earlier term as chief minister. "I have no doubt it will be a well-planned city," says K.V. Vishnu Raju, Chairman, Anjani Vishnu Holdings, which has interests across the state in food processing, ceramic tiles and higher education. But whether it will attract industry remains to be seen. "I don't really expect it to emerge as an industrial hub as there are already other belts in Andhra where industry is flourishing," he adds. He expects the belts around Nellore, Tirupati and Visakhapatnam – with their proximity to markets in Chennai and Bangalore – to continue to attract industry and is himself investing in a new vitrified tiles' project in Nellore. B.V.R. Mohan Reddy, Chairman of Nasscom and founder of IT company Cyient, agrees. "There are compelling reasons to build a new capital which will be a thing of pride for Andhra Pradesh," he says. "But that alone may not be enough to attract industry, which needs other enablers such as social infrastructure, education and soft skills development in the region." ◆

@EKumarSharma

A SNAPSHOT OF THE NEW CAPITAL

LOCATION:
Guntur district. The new capital Amaravati will fall between Guntur and Vijayawada towns

MASTERPLAN:
Prepared by Singaporean agencies Surbana International Consultants Pte Ltd and Jurong Consultants Pte Ltd

AREA:
Core "seed capital area" comprising government buildings, etc: 16.9 sq km
Capital area: 217 sq km
Total capital region area: 7,420 sq km

TOTAL ESTIMATED COST
₹1.5 lakh crore

COST OF "SEED CAPITAL" AREA:
Around ₹20,000 crore

THERE ARE PPREHENSIONS THAT THE SINGAPORE IODEL OF CITY DEVELOPMENT IAY BE BLINDLY SUPERIMPOSED ON AMARAVATI, WITHOUT ADDRESSING LOCAL NEEDS

By KAVIL RAMACHANDRAN

Lessons in Institution Building

Global experience shows that academic autonomy is fundamental to building high-quality educational institutions

Britain and the United States have a long history and tradition of building lasting educational institutions. The universities of Oxford and Harvard have over 1,000 and 400 years of history behind them, respectively. Then there are several "younger institutions," over 150 years old, in both the countries that have stood the test of time. Some of them are privately managed, but all are publicly funded directly or indirectly, as is the case in India.

One common feature to most of these centres of learning is the adherence to a strong process of institution building. There is a shared vision and commitment to excellence among the key stakeholders, including the government. The political leadership has always respected such institutions. This seems to be a reflection of the maturity of the political parties. Their pre-eminence as symbols of national repute has also made them unreachable for any political and government entities.

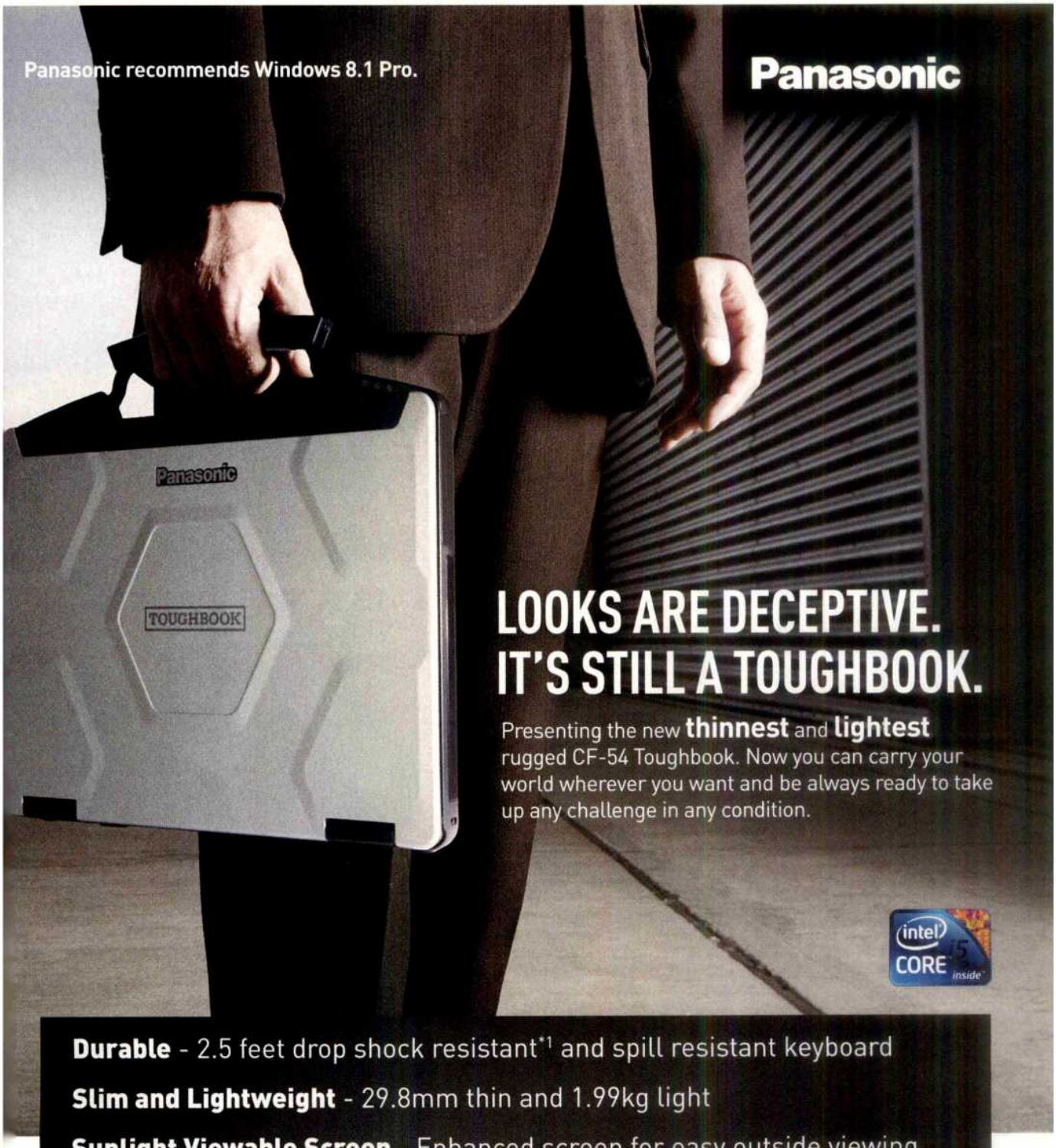
Indeed, there are rare instances of some in the government attempting to use their power to question academic freedom, but they are strongly pushed back by a collective mechanism of other stakeholders. A classic instance of this was the "civil investigative demand", initiated in 2010 by the Attorney General in the state of Virginia, asking for a wide range of records from M.E. Mann, a reputed scientist working on climate change at the University of Virginia. The demand was issued under the Virginia Fraud Against Tax Payers Act. He alleged that Mann had violated certain research grant conditions by manipulating data and wanted access to the raw research data. The University of Virginia, founded in 1819 by Thomas Jefferson, is a state-funded public university of global repute. The faculty, several scientists and science organisations expressed serious concern about the implications of such state interference on academic freedom. The university strongly resisted the move by approaching the judiciary. A court upheld Mann's right to protect the data. This is considered a victory for academic freedom in recent years.

There are well laid down policies and controls for funds utilisation and manpower management, leaving all academic matters to be decided by the faculty and management. For instance, Oxford University – whose governance mechanism was formalised through a legislation in 1924 – has a Congregation and a Council, both represented by academics, with complete powers on all academic matters. The government believes that autonomy is a responsibility given to the universities. Representatives on the board of governors are carefully chosen to achieve this goal. Except for isolated instances such as the one at Virginia, governments have defined and stuck to their roles unambiguously. The leadership of these institutions has taken responsibility for academic-related activities. Academic freedom is not considered as a freedom to do anything.

In essence, management of public educational institutions is a doubles game played by the government with the institution as a partner. There has to be perfect understanding between the players to make it not only collision-free but also form a winning combination. For this to happen, government as the captain and super steward should create legislation and policies, unambiguously defining the limits to freedom for each player; it also has to create transparent mechanisms for adherence to them. Academic freedom is not something that governments should tamper with. However, we need to define academic accountability for our institutions of "excellence", and create transparent evaluative mechanisms for their performance. Also, it is important to leave academics with adequate freedom to encourage and pursue intellectual matters without fear of interference. This requires keeping autonomy and accountability closely linked.

It is high time that we learnt from the experiences of advanced economies with globally reputed educational institutions. Academic autonomy is fundamental to having high-quality institutions. What is required is not to impose more controls and take away autonomy but give greater freedom hand in hand with greater accountability. ◆

***Kavil Ramachandran** is the Executive Director, Thomas Schmidheiny Centre for Family Enterprise, Indian School of Business*



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PROPPING UP **SICK UNITS**

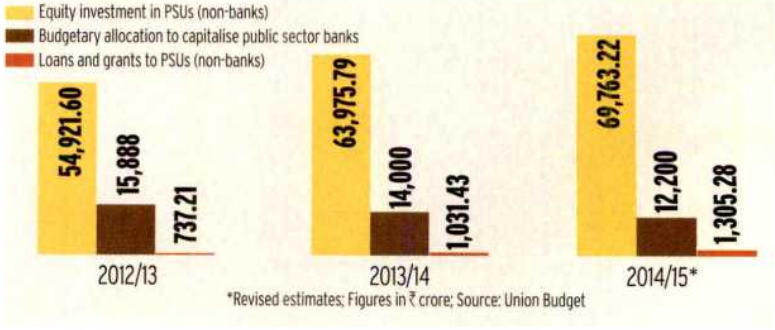
Many PSUs are dependent on government support. According to the Public Enterprises Survey (2012/13), 79 loss-making PSUs, including bigwigs like Air India and BSNL, are bleeding cash and have survived only on budgetary allocations. And, though the government has been trying to reduce its financial burden by selling its stake in many PSUs, the disinvestment programme has remained a non-starter due to stock market volatility.

Graphic by: **Anand Sinha**

Research by: **Jyotindra Dubey**

1 The government uses almost seven per cent of its gross tax revenue to inject funds in PSUs through equity or debt annually

	2012/13	2013/14	2014/15*
TOTAL ASSISTANCE TO PSUs	71,546.81	79,007.22	83,268.50
TOTAL ALLOCATION (of tax revenues)	6.90%	6.94%	6.65%



*Revised estimates; Figures in ₹ crore; Source: Union Budget

2 The number of loss-making PSUs has been rising. The loss-making PSUs together bled ₹28,260 crore in 2012/13

NO. OF OPERATING CPSE	214	213	217	220	225	229
NO. OF LOSS MAKING CPSE	54 (2007/08)	55 (2008/09)	60 (2009/10)	62 (2010/11)	64 (2011/12)	79 (2012/13)

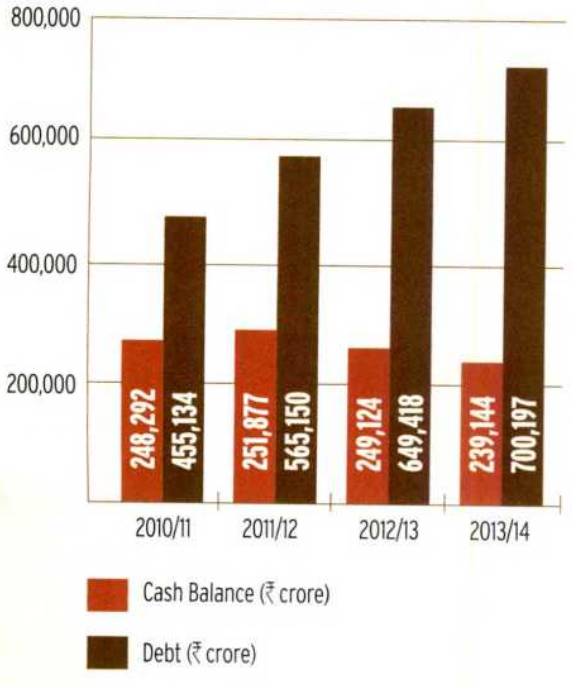
Source: Department of Public Enterprises

3 BSNL is the PSU incurring maximum losses, followed by Air India

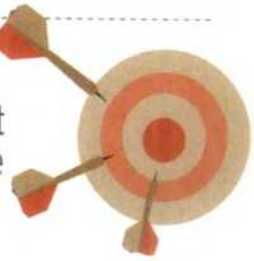
	LOSS AFTER TAX (₹ CRORE)	TOTAL REVENUES (₹ CRORE)	NET WORTH (₹ CRORE)
BSNL	7,019.76	28,069.93	50,033.32
Air India	5,199	16,078	(15,642)
Hindustan Photo Films	1,820.42	1.74	(12,722.19)
Hindustan Cables	781.88	3	(6,094.48)
State Trading Corporation of India	492.20	15,695.36	97.73

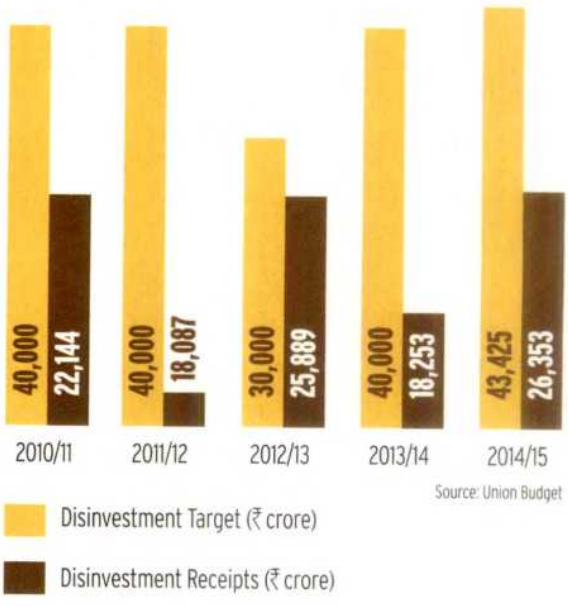
All figures for 2013/14; Source: CMIE Prowess

4 Indian PSUs' debt burden is rising and their cash reserves are falling



5 The government has missed its disinvestment target every year for the past five years





Source: Union Budget

WHAT'S TRENDING

Tap and Transfer

As Facebook Messenger's payment service goes live in the US, and Ping Pay takes off in India, it's clear that social networks will play a role in our finances.

By **CHITRA NARAYANAN**

RAJ VERMA

Money has been changing hands through mobile phones for a while now. Just tap on the screen and watch it float on to your friend or family's account. Now add yet another channel, with Facebook Messenger's payment service going live in the US.

On July 1, the social media giant rolled out its much-promised peer to payment service over Messenger. All that users have to do is link up a debit

SOCIAL TOON

AJAY THAKURI

card within the app's setting, tap on the $ icon, key in the amount to be sent and away it goes to a receiver's account. Once the receiver clicks on 'accept payment', the money gets transferred to her bank account.

Closer home, in May, Axis Bank launched Ping Pay, a multi-social payment application that one can use to send or ask money via WhatsApp, Facebook, Twitter, email or SMS. Over Ping Pay, cash transfers are no cold business-like transactions as users can send quirky messages, video, audio and pictures even as they send money. Significantly, Ping Pay is open to non-Axis Bank customers as well – Android and Apple device users can download the app. And unlike FB Messenger where it takes three days for the money to get into the recipient's bank, Ping Pay claims transfers are instant.

The world of peer-to-peer payment apps is getting exciting with social media entering the fray. Inevitable, in a way.

Last fortnight as Singapore-based fintech company Fastacash, the tech provider for Axis Bank's Ping Pay received $15 million in series B funding, its chairman and CEO Vince Tallent remarked, "If users can send photos to each other, why shouldn't they be able to send money. We want to take transactions to where people live and breathe, and that's social networks on their mobiles."

That's the exact philosophy – "be where the customer is" – that prompted Axis Bank to roll out Ping Pay, the first to launch a multi-social payment app. Now, others like ICICI Bank and HDFC bank are getting into the act too through digital wallets like Pockets and PayZapp.

But are people open to transacting over social forums? Rajiv Anand, Group Executive & Head, Retail Banking, Axis Bank, says Ping Pay already has one lakh downloads, and though these are initial days, "early trends show an overwhelming majority of transfers are using the social connect in general and WhatsApp in particular".

Security, of course, is the biggest concern of those still hesitating to take the plunge into social money transfer. But both Facebook and Ping Pay have taken pains to add layers of security. While Facebook says its service is contained in a secure, encrypted environment and monitored by anti-fraud experts, Anand points out how a two-step authentication process ensures security of the Ping Pay app. ◆

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LISTENING POST

Charity Begins on Social

Today, when you can do pretty much everything over social networks, why not donate to your favourite charity as well? Well that can happen over Wikipedia founder Jimmy Wales' new social network The People's Operator (TPO.com), which is modeled around Facebook and Twitter but focused entirely around charities and causes.

The social network is funded by TPO mobile network, a charitable mobile phone service that has been around in the UK since 2012 but has now expanded to the US. Users of the phone network can automatically donate 10 per cent of their monthly phone bills to a charity of their choice. Wales makes a compelling case for the network, when he says rather than supporting advertisers, users support a cause.

Chasing Followers

A few months ago, Twitter acquired Niche, a social media talent agency, which hunts out people with huge followings and connects them with advertisers. Now, it's the turn of Disney's Maker Studios to acquire a similar company. It's just bought out Instafluence, a start-up that links up marketers with people with large followings over social media. Through this deal, the studio hopes to help marketers put their ad campaigns more effectively on platforms like Instagram, Vine, Snapchat and Twitter, and reach relevant audiences.

INSTAFLUENCE

Insta-search

Even as most networks are focusing on mobile apps, Instagram has beefed up its web offering, adding search abilities. Using the search tool, users can look for user profiles, hashtags and locations to get to know what's happening at a particular event or place.

Indian companies eye Iran as sanctions on the West Asian country are set to be lifted following the nuclear deal. India's trade with Iran could rise exponentially.

By ANILESH S. MAHAJAN

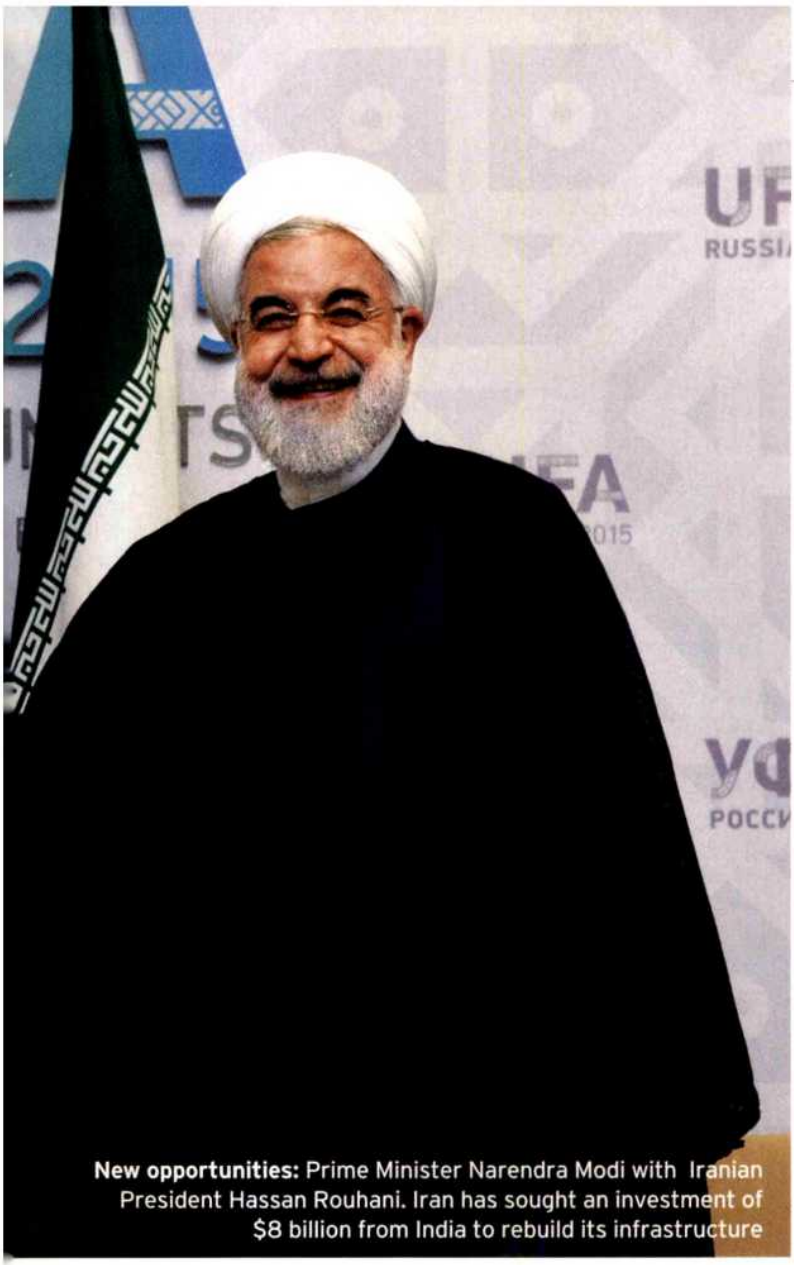
A PASSAGE TO IRAN

Days before western powers struck a deal with Iran to stall nuclear weapon development, Iranian president Hassan Rouhani was meeting India's Prime minister Narendra Modi on the sidelines of the Shanghai Cooperation Organization (SCO) summit at Ufa in Russia. Optimistic about clinching the negotiations taking place miles away in Austrian capital Vienna, Rouhani asked Modi to invest $8 billion in rebuilding infrastructure in Iran.

Rouhani's call was symptomatic of Iran's constraints that brought it to the negotiating table to agree to the deal. Ever since 2006, Iran has faced a series of sanctions from the UN, EU and the US which have starved the country of capital, technology and related infrastructure development. The sanctions imposed were the toughest ever against any country. The US began blacklisting companies doing business with Iran. Iran's economy is in tatters with GDP growth rate at 1.1 per cent last year and inflation raging at 15.8 per cent.

But with Rouhani's foreign minister Mohammad Javad Zarif and representatives of G5+Germany announcing the deal on July 14, the question is whether India is in any position to leverage nearly six decades of goodwill with the country to partake the economic bonanza that awaits doing business with Iran. After all, despite the sanctions, India is among the few countries that found ways to trade with the country, including importing crude. Barely a week after Iran's deal with the West, a delegation of Indian industry lobby CII went to capital Tehran to seek business opportunities. In fact, another group, ASSOCHAM announced its plan to set up an office in Tehran.

Iran is starved of real infrastructure, rail, road network, ports and airports. India sees this as a 'golden opportunity'. Not just for investments within Iran, but also to strengthen the connectivity towards Afghanistan and subsequently to Central Asia, circumventing Pakistan. But Indian companies eyeing business in Iran won't have it easy. They will have to contend with



New opportunities: Prime Minister Narendra Modi with Iranian President Hassan Rouhani. Iran has sought an investment of $8 billion from India to rebuild its infrastructure

$6.5
BILLION
India's oil import dues to Iran

$100
MILLION
Amount to be invested by India in developing Chabahar port

367,900
BARRELS
Iranian crude bought per day by Indian refineries in May, a jump of 39% over April

companies from Iran's close allies China and Russia. Particularly, from China which is likely to offer mega infrastructure projects – just what Iran needs right now. Last year, India exported goods worth $4.17 billion and imported goods (largely crude oil) worth $8.9 billion. "Connectivity is the mantra of PM Modi that coincides with Iran's policy," Iranian ambassador Gholamreza Ansari told scribes in India recently. India is working on Iran's proposal of having a free trade agreement. In April, a joint working group – with officials from both sides – began deliberations.

India has made a start anyways. In the run-up to the deal, in March, Minister for Highways, Surface Transport and Shipping, Nitin Gadkari went to Tehran and signed an agreement to develop two terminals at Chabahar port in south east of the country. An Indian joint venture (JV) – between Kandla Port Trust and Jawaharlal Nehru Port Trust – will convert the berths into a container terminal and a multi-purpose cargo terminal. In 2003, then Prime Minister Atal Bihari Vajpayee had signed the MoU but the project did not take off. Indian shipping ministry officials now expect the port to be ready by December 2016. India plans to connect this port with the highway built in Afghanistan. Chabahar is seen as critical to India's energy security and is possibly India's gateway to Central Asia. Kanwal Sibal, former foreign secretary, says, "India will have to evaluate how much they want to invest in Iran. More than economic, the investments would have strategic purpose."

While oil imports from Iran will accelerate, now that India can pay for Iranian crude in dollars instead of rupees, but the area where Iran will look for mega investments is its bread and butter business of oil & gas. Iran currently exports a million barrels per day, which is less than half of the 2.2-2.3 mbd that the country exported before sanctions. Oil minister Bijan Namdar Zangeneh said once the sanctions are lifted, Iran can ramp up production by another million barrels a day. This has to be seen if the global market has appetite – the market already has excess supplies. In order to

ramp up the production, Iran needs over $100 billion. "They will need a lot of investment and technology expertise from western firms," remarks Aditya Gandhi, Director, Sapient Global Markets (India). India's consortium ONGC Videsh Limited, Indian Oil and Oil India discovered Farzad B block in Farsi field, but developed cold feet because of sanctions. In 2014, it put the field on list of blocks to be auctioned. "once the sanctions are lifted the consortium could face competition for development of the field from other global players," says K. Ravichandran of ICRA in a note circulated to clients. Zangeneh, in March this year, met the officials from BP, Shell, Total SA et al., and assured the auction process will start by end of this year. Other than these western companies, Indian players will have to compete with the Chinese and Russian companies.

Indian companies are keen to set up refineries in Iran. "If you see the markets in the Middle East, every oil and gas producing country is investing in refineries. Iran has ample reserves of both oil as well as gas, this makes them a great location for refineries," says the CEO of a refiner.

The other area Indian companies are looking at is power. Public sector power equipment major BHEL has already begun evaluating the new opportunities there. "We have supplied boilers earlier. It is an untapped market, we must explore every possibility there," says a senior official from BHEL. The company recently executed an order for supply of centrifugal compressor for Tabriz refinery (commissioned last year). BHEL is also pursuing opportunities to supply equipment for conventional steam based power plants, hydro power plants, transportation equipment and other products like transformers, motors, valves, and oil field equipment.

Currently, more than half of Iran's electricity comes from gas based units, this is closely followed by oil based power plants. "There is potential for wind-based units," says an official from Suzlon, India's largest wind energy company. Suzlon is keen to not only set up plants but also supply equipment to Iranian projects. Both Suzlon and BHEL were part of the 14 member CII delegation.

THE OPPORTUNITIES

- Iran's refining capacity is getting obsolete. It could open the door for Indian refiners such as RIL
- OVL, IOC and OIL are keen to renegotiate contracts to explore oil and gas
- Indian fertiliser companies plan to set up plants in Iran
- BHEL is looking to sell equipment in this power starved country
- Indian automobile companies spot an opportunity to export cars and two wheelers

In the oil and gas sector, many hope that India may seek revival of the Iran-Pakistan-India pipeline, but with India's frigid relations with Pakistan realistically this option is non-existent. An Iran-Pakistan pipeline is already under construction. "The government has not decided as yet on this," Oil Minister Dharmendra Pradhan told Indian Parliament.

Moreover, Indian consortia – Rashtriya Chemicals & Fertilizers, Gujarat State Fertilizers & Chemicals and Gujarat Narmada Valley Fertilizer & Chemicals – are in the process to identify an Iranian JV partner for a fertiliser plant to produce 1.3 million tonne of urea. While Iran has assured gas supplies to this plant, India will commit urea offtake.

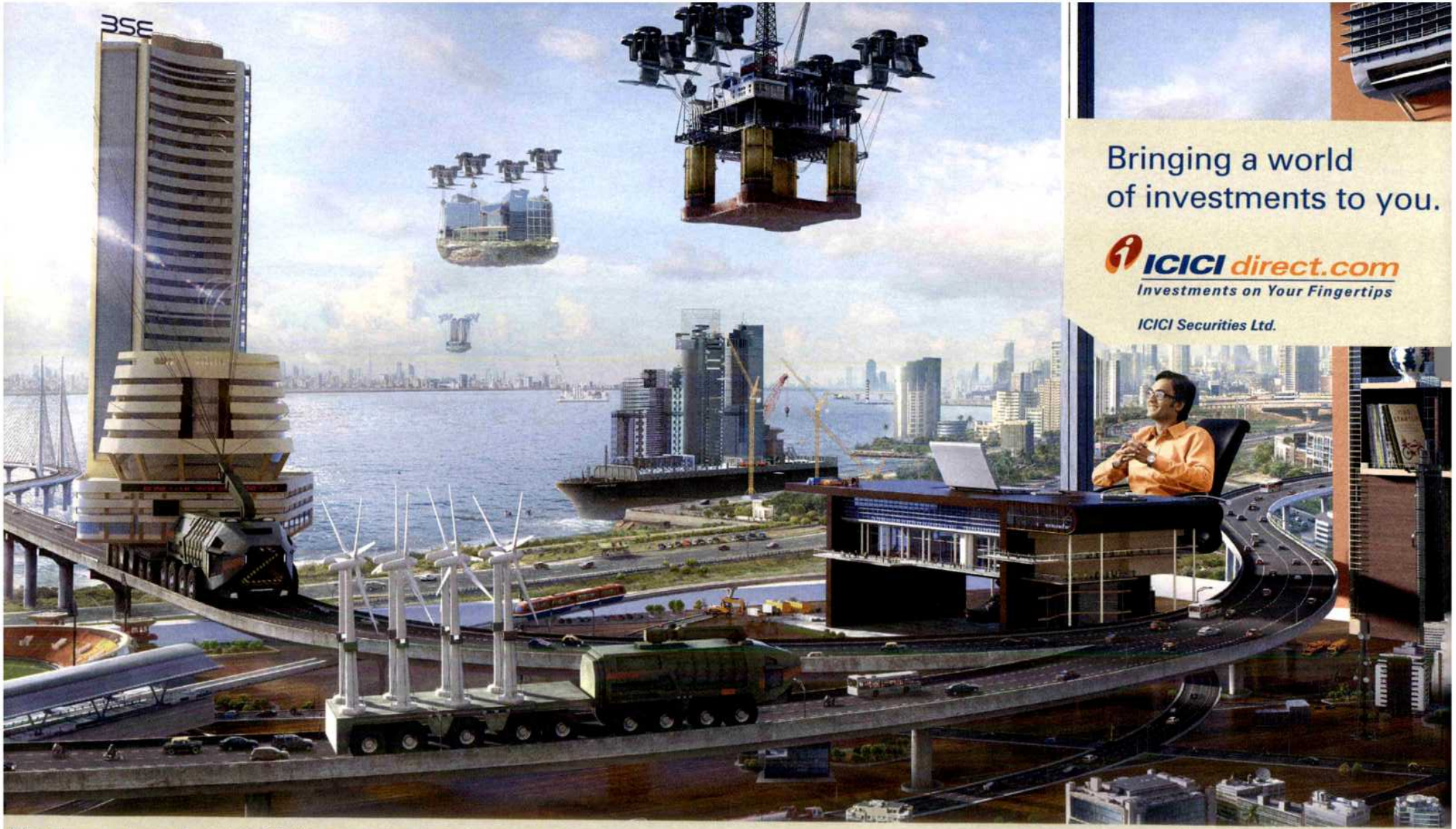
An entirely untapped area that will now be explored is the services sector, particularly in IT and banking. Since a vast majority of their revenue originates in the US and Western markets, Indian IT firms feared reprisal from the US. But with the lifting of sanctions, domestic IT firms can freely trade with Iran. Then, Iran is also seeking investments from foreign banks in JVs in the country. The Iranian central bank is already talking to probable investors.

There are other sectors with potential – auto for instance. The Automotive Component Manufacturers' Association (ACMA) decided to participate in the annual Iran International Auto Parts Fair in November, after a gap of three years. Automobile companies in India plan to export two wheelers and small cars to Iran. In fact, before sanctions were imposed, Bajaj Auto was in process of setting up an office in Tehran.

But in the sanction years, China has made major inroads into Iran. "Post sanctions, Iran will have more options to choose from, it will have to see where India fits in," says Ajay Sahai, director general of Federation of India Export Organizations. India will have to compete with companies from central Europe for engineering goods and tools. "During the days of sanctions, Indian companies made market for rubber goods, gems, iron & steel, pharmaceuticals, medical equipments et al. It would be a test for them to retain their marketshare once this country opens up," he adds.

But even in the midst of positivity around doing business with Iran, some industries are worried. One of the businesses that carried on between India and Iran even during sanction years was the supply of agri-commodities. Iranian importers paid as much as 15 to 20 per cent premium for products such as rice, sugar, cereals since the clampdown. Though such imports may continue, the premium is under threat since Iran's options have opened up. India exported 2.57 million tonnes of Basmati rice to Iran last season, and is one of India's biggest markets. Rice, soybean, sugar and cereals exporters will have to watch out for how sanctions get lifted. ◆

@anileshmahajan



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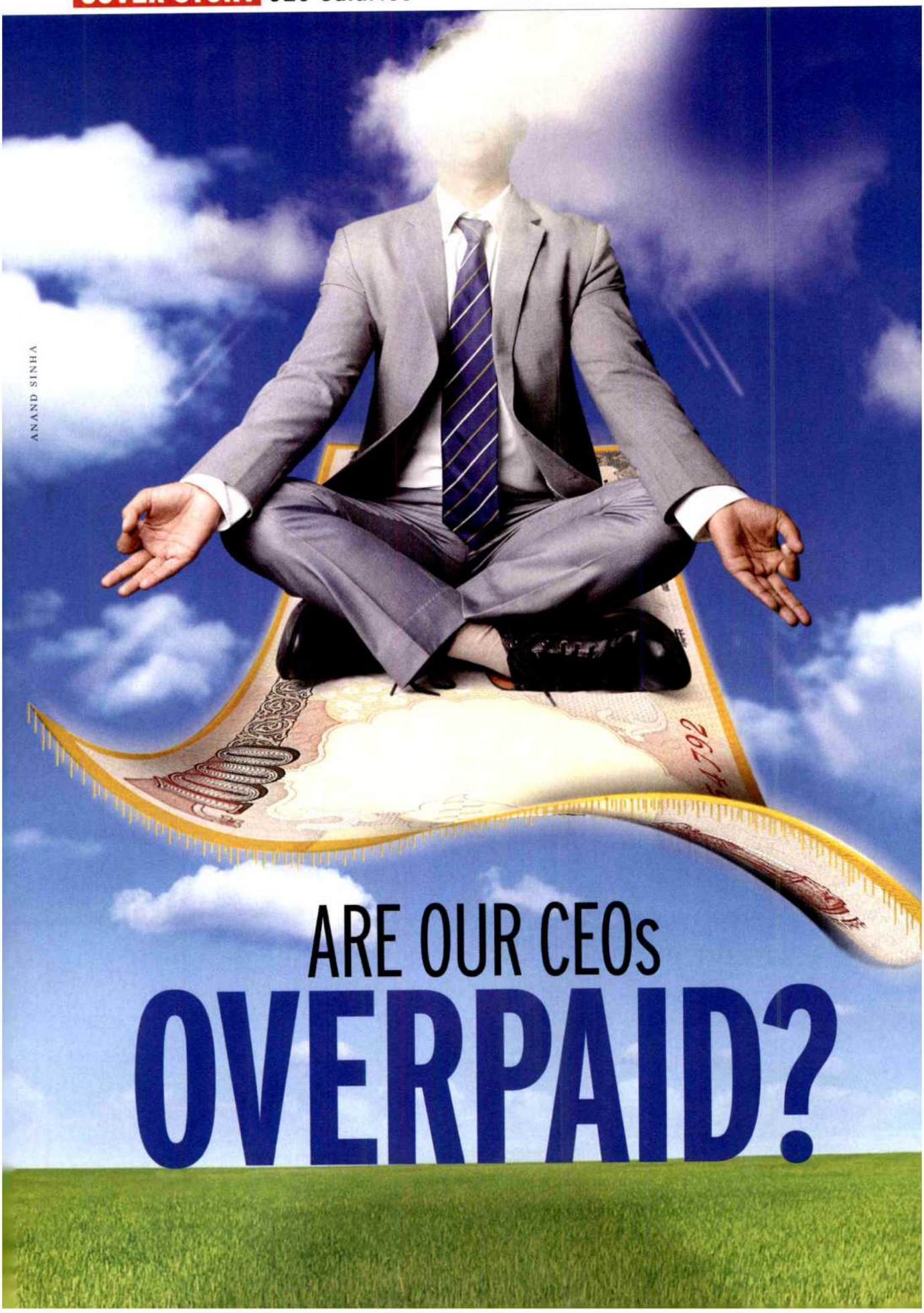


ANAND SINHA

ARE OUR CEOs OVERPAID?

Corner-office salaries are moving northwards even as junior and mid-level pay remains stagnant, widening the compensation divide among ranks.

By CHITRA NARAYANAN with JYOTINDRA DUBEY

"The salary of the chief executive of a large corporation is not a market award for achievement. It is frequently in the nature of a warm personal gesture by the individual to himself"
J.K. Galbraith, US economist and author of *American Capitalism*

Throw this quote at a corporate honcho and he might just retort, borrowing a line from Hollywood actor Michelle Pfeiffer: "I act for free, but I demand a huge salary as compensation for all the annoyance of being a public personality. In that sense, I earn every dime I make."

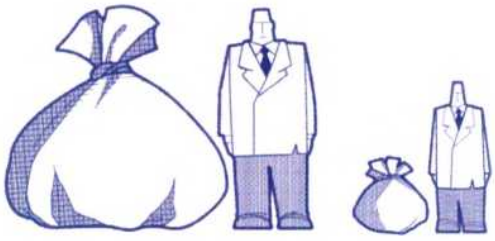
So, are our CEOs overpaid and happily self-awarding themselves, or do they earn and deserve every rupee they make?

There are a host of ways to look at this – through the differential wage ratio between the CEO and the rank and file, through a look at the revenue and profit growth of the company under the CEO's leadership, through a comparison of salaries in global peer companies, and so on. Should we benchmark, say, a Sunil Mittal's compensation against an AT&T and Vodafone executive, or look at how much his salary is higher than those in Bharti Airtel's lower rung?

To start with, we waded through the compensation data in annual reports filed by companies. For the first time this year, following a directive from the Securities and Exchange Board of India (SEBI), companies had to disclose details such as comparisons of salary hikes for top management versus average staff as well as the salary differential ratio between the pay of CEOs and median employee remuneration. Median pay is worked out by lining up all the salaries from highest to lowest and picking out the one that falls right in the middle.

To illustrate, just take a look at what Onkar S. Kanwar, Chairman and Managing Director, Apollo Tyres, took home in 2014/15 versus the year before. He earned ₹41 crore, nearly ₹11 crore more than the year earlier. This, in a year when net sales of the company dropped to ₹12,726 crore from ₹13,310 crore in the previous fiscal, and profits were down 2.73 per cent. More significantly, Kanwar's salary is 1,069 times the median pay in his company. That's a huge wage differential at a time when

MUKESH AMBANI took a massive pay cut from ₹44 crore to ₹15 crore in 2008/09 where it has stayed for seven years. Doesn't matter, because the Reliance promoter and his family got dividends worth **₹1,390 crore** in 2014/15



THE GREAT DIVIDE

The CEO typically takes home a few hundred times the median employee salary

NAME/ DESIGNATION	The ratio of CEO's remuneration to median employee remuneration
D.B. Gupta, Chairman, Lupin	1,168.0
Onkar Kanwar, Chairman & MD, Apollo Tyres	1,069.0
C.R. Amin, Chairman & MD, Alembic Pharmaceuticals	740.0
Sajjan Jindal, Chairman & MD, JSW Steel	536.0
K.K. Sharma, Vice Chairman, Lupin	516.0
P.R. Ramasubrahmaneya Rajha, Chairman & MD, Ramco Cements	443.0
Yogesh Chander Deveshwar, Chairman, ITC	439.0
N. Chandrasekaran, CEO & MD, TCS	416.5
Navin Agarwal, Chairman, Vedanta	292.8
A.B. Godrej, Chairman & Executive Director, Godrej Consumer Products	264.0
Nilesh Gupta, MD, Lupin	256.0

Figures for 2014/15; Source: Company annual reports

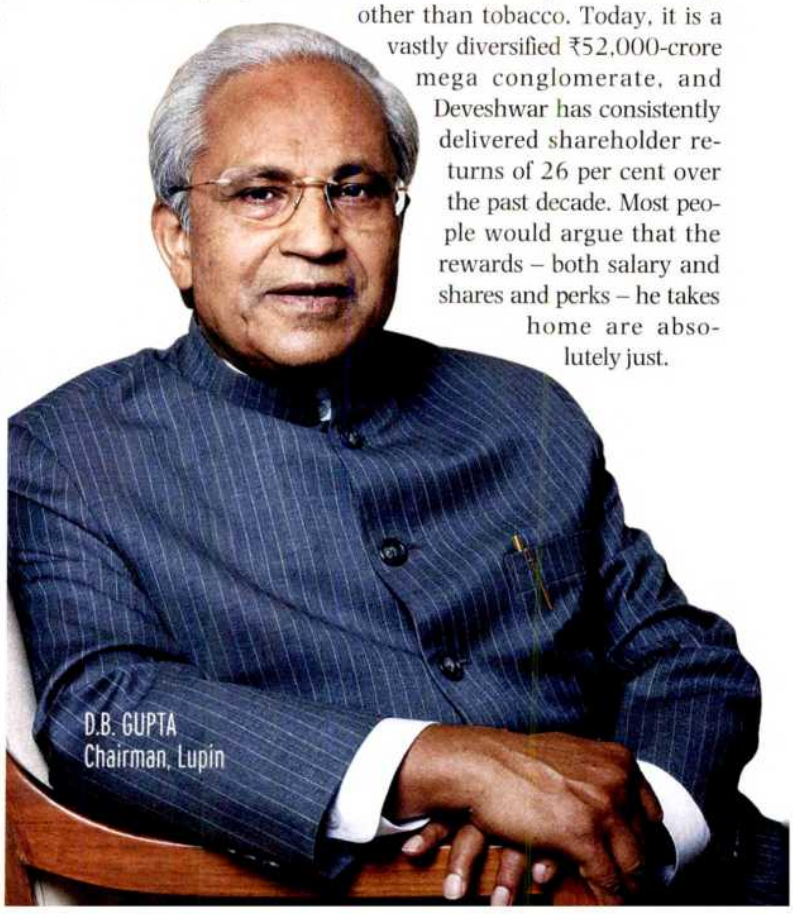
salary gaps are narrowing globally, and there is growing activism around high CEO salaries.

Those defending Kanwar's high compensation might argue that he is the promoter of the company and the risks he has taken justify the rewards. Even higher than Kanwar's salary is what Sun TV Network's Executive Chairman Kalanithi Maran and wife Kavery Kalanithi, Executive Director in the company, took home in 2013/14. They got paid ₹59.9 crore each. But then, on the other end, look at Wipro's Azim Premji, who draws a salary that is only 89 times the median pay.

And conversely, the differential ratios are high for some professional CEOs as well. For instance, TCS CEO N. Chandrasekaran took home ₹21.2 crore, a pay hike of nearly 14 per cent over last year that is in line with TCS' topline growth of 14 per cent. Chandrasekaran's ratio of remuneration to median remuneration is 416.5 times – surprising for a services company where the middle rung gets paid better than in manufacturing. Now look at Chandrasekaran's salary from another parameter – the salary he earns for every ₹100 of profits earned by the company. It is a mere 11 paise.

Almost similar is the differential ratio of Yogi Deveshwar, Chairman, ITC, who gets 416 times the median pay at the tobacco-to-hotels giant, even though his salary is just ₹13.8 crore. Though if you include the company shares that Deveshwar gets every year (he has offloaded nearly ₹50 crore worth shares that he had accumulated over a period) then the wealth he has created for himself as a salaried individual is enormous.

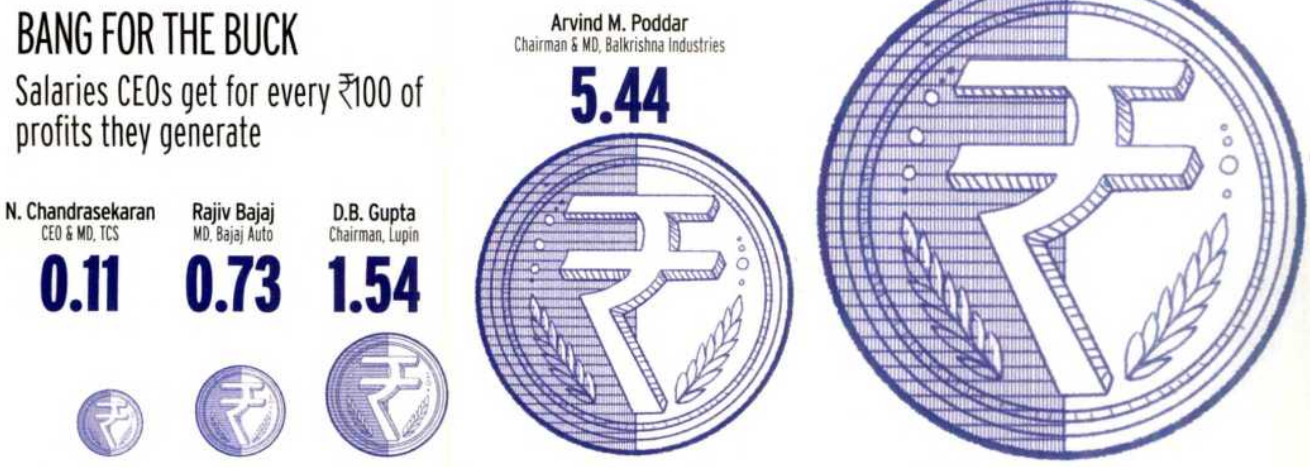
Then again, Deveshwar has been leading ITC since 1996. In 1997/98, a year after he took over as chairman, the turnover of the company was ₹7,754.6 crore, with only a few businesses other than tobacco. Today, it is a vastly diversified ₹52,000-crore mega conglomerate, and Deveshwar has consistently delivered shareholder returns of 26 per cent over the past decade. Most people would argue that the rewards – both salary and shares and perks – he takes home are absolutely just.



D.B. GUPTA
Chairman, Lupin

BANG FOR THE BUCK

Salaries CEOs get for every ₹100 of profits they generate



Source: CMIE Prowess, *BT* Research

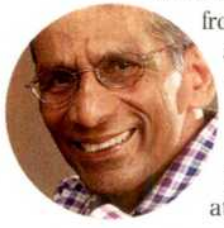
N. Chandrasekaran generates the most profits compared to the salary he gets

"The logic of CEOs drawing higher salaries is to match with the revenue targets they have for their business. A CEO will not be willing to draw a salary of ₹50 lakh per annum if revenue target for the business is ₹2,500 crore per annum. The salary has to be commensurate," points out Kamal Karanth, MD-India at Kelly Services, a recruitment consultancy. "From an accountability standpoint, a CEO's role is extremely demanding and requires him to perform at all times," he says.

Shekhar Bajaj, Chairman and Managing Director, Bajaj Electricals, too defends the payout to CEOs: "A good CEO or a department head can make a lot of difference. There is no harm in paying ₹5 crore or ₹10 crore to a CEO of a company making ₹100 crore profit a year. That money makes no difference. He or she can lift the profitability and that is what managements want."

"The median concept is a little misleading as quality is rare and there is demand for quality"

Y.M. DEOSTHALEE, CMD, L&T Finance Holdings



Anandorup Ghose, who leads the Performance and Rewards consulting practice for Aon Hewitt, says one should also look at some of the seemingly high CEO salaries in a wider context. "Many Indian CEOs are managing businesses that are not just Indian but global," he says. A case in point may be Hindalco's Debu Bhattacharya, who tirelessly works seven days a week and has steered the Aditya Birla Group company from a ₹6,400-crore entity to a nearly ₹1 lakh crore business and led it through a $6-billion acquisition of Novelis. Net profit of Hindalco has been growing at a CAGR of 16.4 per cent over 10 years.

"You cannot compare pay of an Indian CEO managing a business with global reach with that of an MNC CEO managing only India operations," says Ghose.

K. Sudarshan, Managing Partner at EMA Partners, a global executive search firm, agrees: "You cannot take it away from senior leadership be-

N. CHANDRASEKARAN, CEO and MD of TCS, saw his total compensation rise seven-fold in past five years. He was followed by RAJIV BAJAJ, MD, Bajaj Auto, and RAMESH IYER, MD, M&M Financial Services. Their total compensation grew **six times.** But they were also the best performing CEOs in terms of profits generated

cause they are engaged in scaling the business globally in a big way."

Inching Towards Global Pay

Indeed, the reason why many of our CEO salaries are now moving northwards is to bring them on a par with global pay scales. "The salary levels of top talent in India are now similar to those in Europe or the US, which was not the case earlier," points out Venugopal Dhoot, Chairman and MD, Videocon. He says compensation structures for CEOs started changing when Indian companies began global forays.

But it's a long while before salaries in India can touch the scale of the world's highest paid CEO, Satya Nadella of Microsoft Corporation who draws $84.3 million (₹525 crore). There is no company in India the size of Microsoft, of course.

If you want to do an apples-to-apples comparison, contrast the pay that Reliance Industries' Mukesh Ambani gets versus what Ryan Lance, CEO of ConocoPhillips, an American multinational energy corporation, takes home. Lance earns $27.5 million (₹174 crore) while Reliance rewards its promoter head just ₹15 crore. But then the promoter family earned dividends of ₹1,390 crore in 2014/15.

According to a study by compensation data firm Equilar, median pay for 100 top global CEOs was $14.3 million (₹91.5 crore), showing a rise of five per cent over the last year. In comparison, the median pay for Indian CEOs would range around just ₹3.7 crore. On paper, it looks a big divide.

But Aon Hewitt's Ghose says one should not do a dollar-to-rupee conversion, but look at salaries in purchasing parity terms, and on this

TOP 10 HIGHEST PAID PROFESSIONAL EXECUTIVES

Director Name/ Designation/ Company	2010/11	2011/12	2012/13	2013/14	2014/15
1 A.M. Naik/ Executive Chairman/ Larsen & Toubro	14	3	21	**28**	NA
2 Subhanu Saxena*/ Managing Director & Group CEO/ Cipla	-	-	-	**22**	NA
3 Debu Bhattacharya/ Managing Director/ Hindalco Industries	17	19	21	**21**	NA
4 N. Chandrasekaran/ CEO & Managing Director/ TCS	5	9	12	**19**	**21**
5 S.N. Subrahmanayan**/ Executive Director/ L&T	-	1	9	**13**	NA
6 K. Venkataramanan/ Managing Director & CEO/ L&T	8	2	14	**13**	NA
7 Karl Slym***/ Managing Director/ Tata Motors	-	-	11	**13**	NA
8 Nikhil R. Meswani#/ Executive Director/ Reliance Industries	11	11	11	**12**	**12**
9 Hital R. Meswani#/ Executive Director/ Reliance Industries	11	11	11	**12**	**12**
10 Yogesh Chander Deveshwar/ Chairman/ ITC	8	10	10	**11**	**14**

All figures in ₹ crore; *Appointed Feb 2013; ** Inducted into the board in July 2011; *** Appointed in Oct 2012; died in Jan 2014; NA: 2014/15 data awaited for some companies; # The Meswani brothers are related to the promoters of RIL; Source: CMIE Prowess

~ Monday Morning ~

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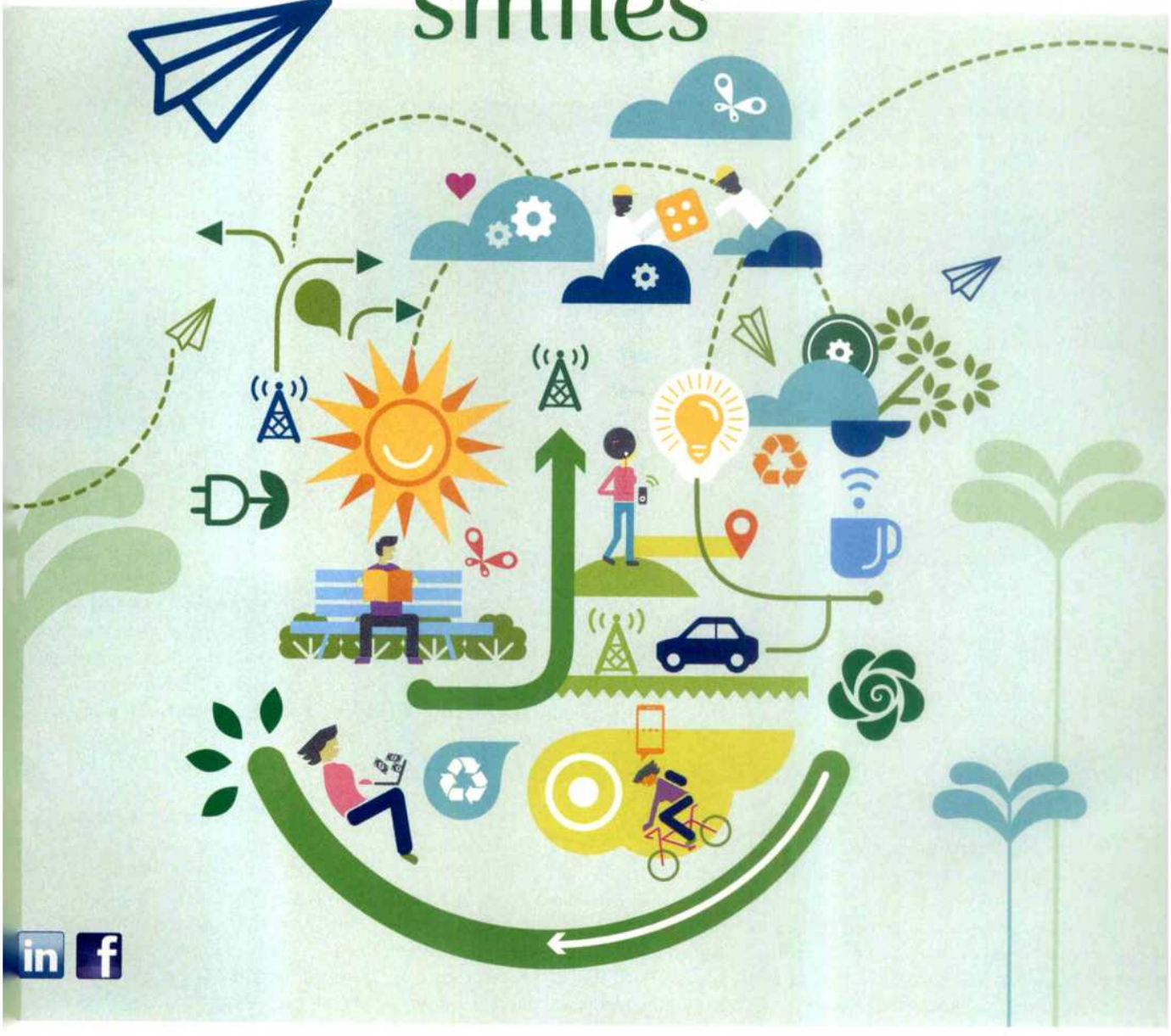

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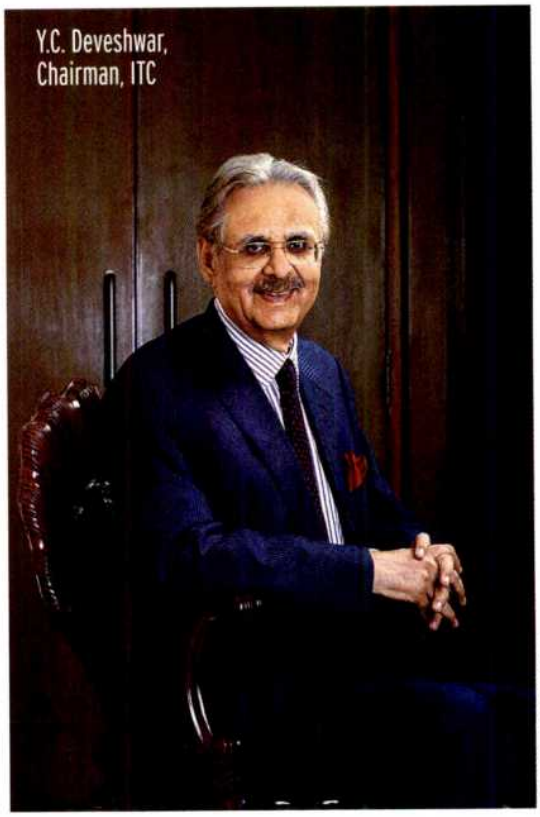
The salary of Y.C. DEVESHWAR, Chairman, ITC, is ₹13.8 crore but he recently sold ITC shares that he had accumulated over the years, which fetched him around ₹50 crore

count, he says Indian companies are reasonably competitive. Says Anurag Shrivastava, CEO of HRNext: "If you look at the purchasing power parity benchmark, Indian CEOs are best paid in the world. The tax rate in the US is about 40 per cent, in the UK almost 50 per cent, whereas in India, it is just 30 per cent. Plus several perks here are not taxed. In addition, our CEOs enjoy an array of services – from gardeners to chauffeurs."

Pothen Jacob, Director-People Success (Compensation & Benefits), Sapient India and APAC, sums it up when he points out how difficult it is to compare Indian salaries with counterparts across the world. "The salaries of people at senior levels are much lower if you compare the absolute value without taking into account purchasing power parity. The pay will be relatively much lower than their counterparts in other developed economies. However, this balance is difficult to maintain because of the globally mobile nature of the talent at the senior levels, making it difficult to ascertain how over or underpaid is our top management."

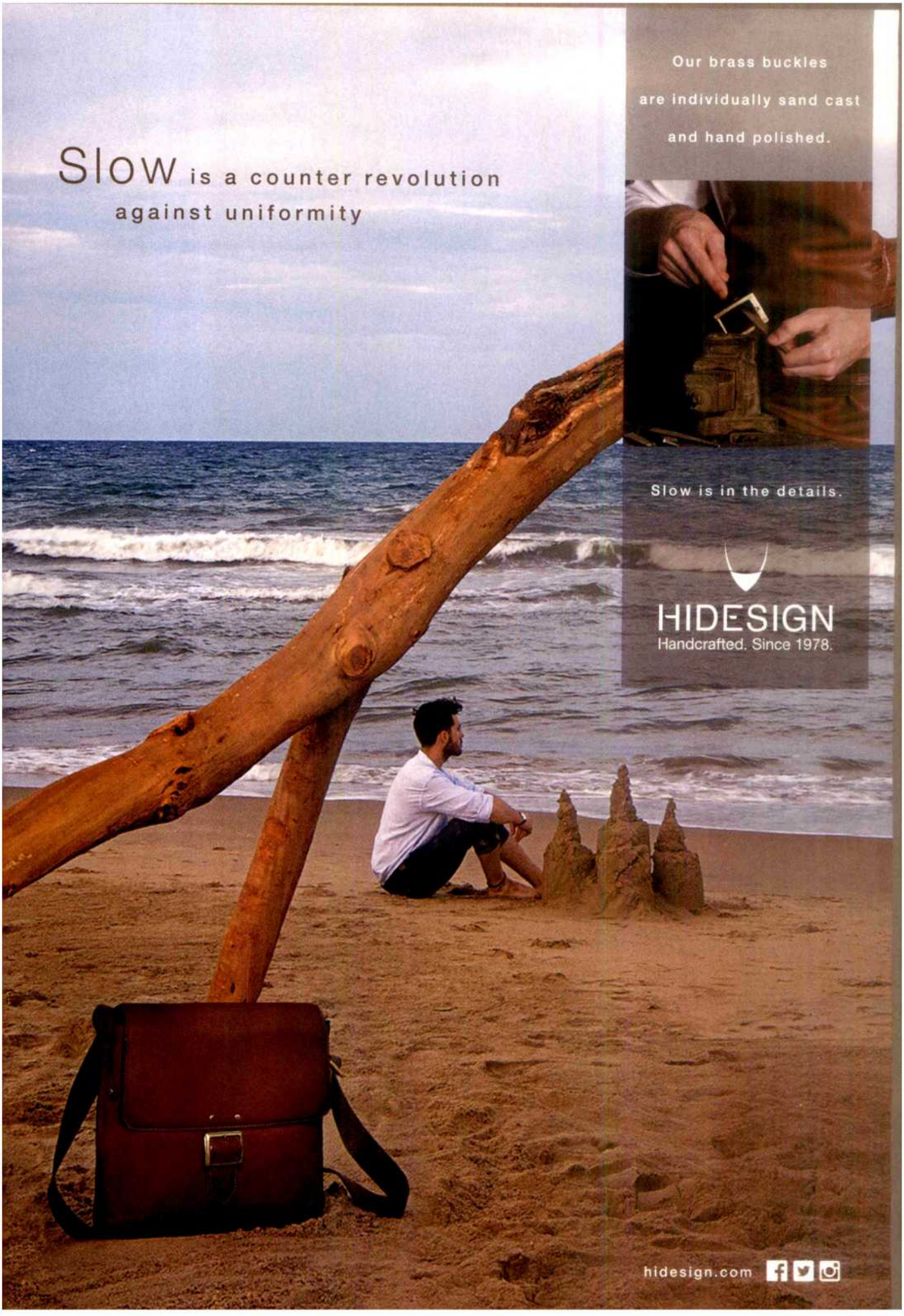
Even as salaries of most Indian CEOs have been shooting up, Kewal Handa, former MD, Pfizer India and Wyeth, points out that there are some anomalies. "Salaries have gone up exponentially in the last five years across sectors for Indian CEOs, but interestingly, it has not happened in the case of the pharmaceutical sector, which is a high-growth industry," he says. This could be because most CEOs in the sector are promoters and would be taking payouts as dividends rather than salaries. Handa also says that this is because the salaries of multinational companies in India are governed by their global benchmarks and HR systems. "A country head in Thailand or Brazil or Mexico may be drawing the same salary an Indian multinational pharma CEO is getting. In the case of many fast-growing domestic companies, CEOs have come from abroad at a very high price," he says.


Y.C. Deveshwar, Chairman, ITC

SHEKHAR GHOSH

EMA Partners' Sudarshan endorses this, saying there is a growing trend of Indian promoters seeking out global CEOs to head their operations. "The way Indian companies are thinking, if we have to fork out $1.5 million for an Indian CEO, you might as well get a global candidate," he says. An example is the way Indian Hotels (that runs Taj Hotels) has recently hired former Hyatt Corporation's development head Rakesh Sarna at a package of $2.51 million (₹15.82 crore), making him the second highest-paid CEO within the Tata Group. Similarly, Infosys headhunted former SAP executive Vishal Sikka and offered compensation of $5.08 million (₹32.5 crore at current exchange rates) besides a stock option of $2 million.

Global mobility of talent is especially true in the IT sector, which has seen substantial growth in C-suite pay. If Chandrasekaran's salary has jumped seven-fold over a five-year period, then Wipro CEO T.K. Kurien has seen a four-fold rise. Kris Lakshmikanth, Chairman and MD of The Head Hunters India, a boutique executive search firm, says IT companies need to pay globally attractive salaries to get the best talent. "This is an industry where talent is highly mobile and which has also seen huge growth. Naturally, the rewards of those leading this kind of accelerated growth have also grown manifold."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TOP 10 HIGHEST PAID PROMOTER EXECUTIVES

	Director Name/ Designation/ Company	2010/11	2011/12	2012/13	2013/14	2014/15*
1	Kalanithi Maran/ Executive Chairman/ Sun TV Network	64.4	57.0	56.3	**59.9**	NA
2	Kavery Kalanithi/ Executive Director/ Sun TV Network	64.4	57.0	56.2	**59.9**	NA
3	Pawan Munjal/ Chairman, Managing Director & CEO/ Hero MotoCorp	26.5	34.5	32.8	**37.9**	NA
4	D.B. Gupta/ Chairman/ Lupin	11.4	15.0	22.0	**37.2**	**37.6**
5	Brijmohan Lall Munjal/ Chairman Emeritus/ Hero MotoCorp	26.8	34.4	32.7	**37.0**	NA
6	Naveen Jindal/ Chairman/ Jindal Steel & Power	67.2	73.4	55.0	**37.0**	NA
7	Sunil Kant Munjal**/ Joint Managing Director/ Hero MotoCorp	-	21.1	31.5	**36.0**	NA
8	Murali K. Divi/ Chairman & MD/ Divi's Laboratories	16.3	23.1	26.5	**33.4**	NA
9	Onkar S. Kanwar/ Chairman & MD/ Apollo Tyres	14.1	14.0	24.2	**30.4**	**41.7**
10	Jayadev Galla/ Vice Chairman & MD/ Amara Raja Batteries	17.3	17.5	23.4	**29.3**	NA

All figures in ₹ crore *2014/15 data still awaited for some companies; **Appointed as Joint MD in Aug 2011

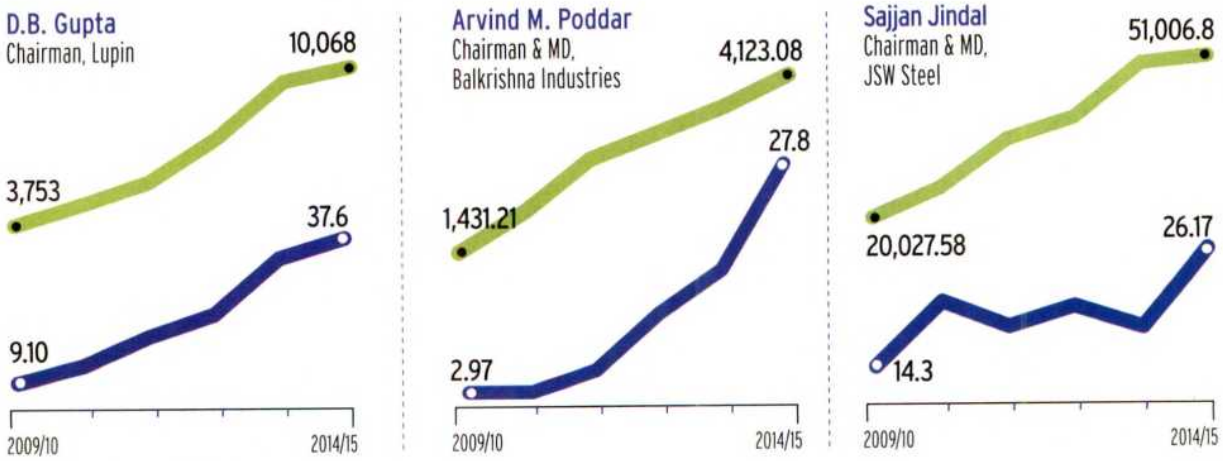
Source: CMIE Prowess

It's All Variable

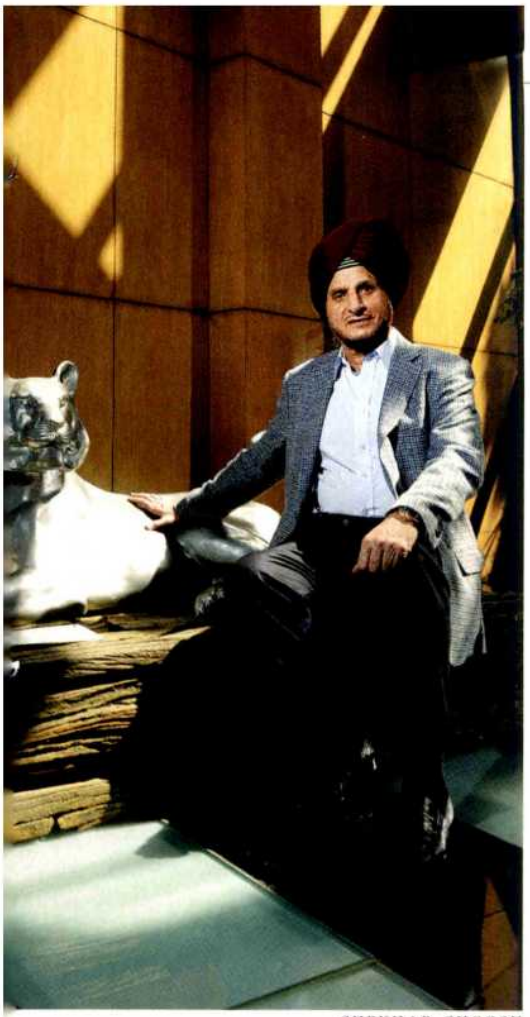
Those who defend CEO compensation also point to the stiff targets and the way packages are structured today. For most CEOs, only 40 to 50 per cent of the pay is fixed cost, 50 per cent comes through variable pay. Which means targets – often stiff ones – have to be met to earn the performance bonus.

Sudhanshu Tripathi, Group President, HR, Hinduja Group, agrees. "A substantial upside in C-suite employee earning is provided through a variable pay structure," says Tripathi, who oversees the C-suite hiring process across the conglomerate that has interests in automotive, banking and

MATCHING GAINS: Growth in CEO salaries has kept pace with rise in companies' revenue



All figures in ₹ crore; Source: CMIE Prowess



SHEKHAR GHOOSH

ONKAR KANWAR of Apollo Tyres took home ₹41 crore in 2014/15, nearly ₹11 crore more than the year before. This in a year when the company's net sales and profits fell

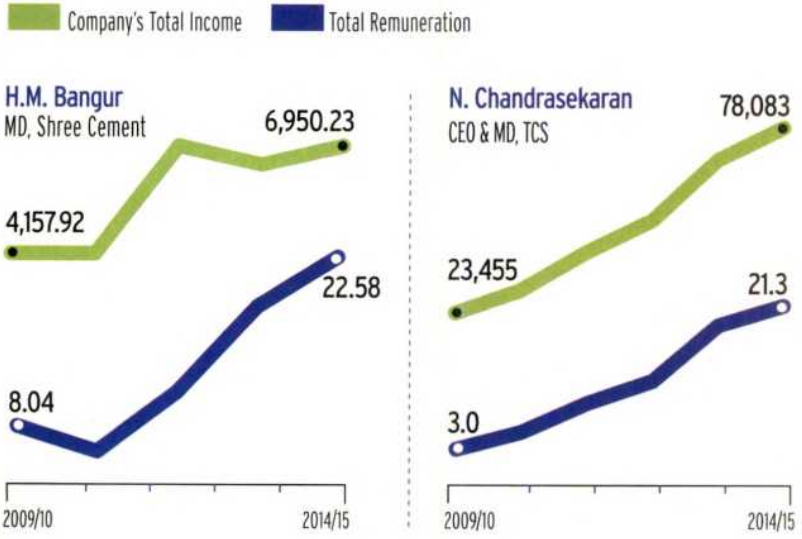
finance, IT and ITES, media, oil and gas, and power. In his group, Tripathi says variable pay is structured around short-term annual incentives based on performance against annual plans along with long-term incentives in the form of cash and stocks that are forked out based on long-term value creation goals. "Both, when taken together, constitute 40 to 60 per cent of C-suite salary structures," he says. And as he points out, only good performance earns rewards. "There are instances where they have been reduced or increased in line with actual performance. It cuts both ways."

But the long-term incentives have paid off for a lot of our head honchos. Look at K.V. Kamath, former chairman of ICICI Bank, who cashed in on a part of his ICICI Bank stocks recently, and collected a cool ₹54 crore. Kamath sold 17.5 lakh shares and is now left with 9.5 lakh shares (just 0.02 per cent holdings) in ICICI Bank. Kamath was with ICICI Bank since 1971 and has led it to its unassailable position as India's largest private bank. But nobody would grudge him the personal wealth creation through company stocks as the share prices are a direct result of his hard work – and hence performance-linked.

On stock options, Shekhar Bajaj points out: "ESOPs are offered at the current market price and it is the market which is paying the executive ₹30 lakh or ₹50 lakh and not the company. If he improves productivity, the company becomes more profitable and his shares will gain more value."

So if everyone is batting for the CEOs to be paid as much as they are getting, why is there such a feeling of resentment? Why the activism about CEO salaries?

It's got a lot to do with entry-level pays, and the unequal distribution of wealth.



Stagnant at the Bottom

The bigger discussion should be around the fact that entry-level pay is low, says Ghose of Aon Hewitt. He shares a popular joke among consultants that it's been decided in the IT sector that entry-level salaries will stay stuck at ₹3.5 lakh for 30 years. "Almost no growth is happening at the basic level. The real growth is happening at mid and senior levels," he says. According to him wage differentials are really common across the board among all companies. CEOs

SOARING WAGE BILLS CHEW INTO PROFIT MARGINS

It's a tough balancing act for Indian companies. On the one hand, they need to fork out higher salaries to C-suite executives and top performers. On the other hand, they need to make sure that wage bills do not shoot up too much and eat into margins.

The prognosis from consultants is gloomy. "Indian companies are losing out on competitiveness due to their bloating wage bills," says Anandorup Ghose, who leads the Performance and Rewards consulting practice for Aon Hewitt. "India will soon reach the cost levels of other markets. As standard of living and aspirations rise, companies have to pay out more to their employees," says K. Sudarshan, Managing Partner, EMA Partners.

While manufacturing firms have managed to keep wage bills low, it's the services firms – especially IT firms – that face a big challenge. Today, TCS and Infosys both spend 49 per cent of their revenues on staff pay.

"Had exchange rates not been as favourable as they are and healthcare costs not gone up in the US, Indian IT companies would have found the going tough. There would have been strict pressure from clients in the US," says Ghose of Hewitt. Two things have led to this situation, he feels. One, long-term average inflation of around 7.8 per cent forcing companies to fork out a commensurate pay hike. Two, a fast-growing economy that is attracting more MNCs to India, leading to a war for talent. A Towers Watson-CII survey this year shows most respondents believe a major chunk of the wage bill increase would be due to payouts to senior staff, and that this would lead to widening wage gap between the highest and lowest earners. For India to remain competitive, costs have to be managed, sums up Sudarshan. Companies have begun doing so by shedding flab at the middle and introducing automation.

TCS AND INFOSYS spend **almost half** of their total revenues to pay salaries. They are followed by Wipro, whose salary bill is around **45 per cent** of its total earnings

draw ₹3.5 crore while entry-level salary remains stagnant at ₹3.5 lakh. Aon Hewitt conducts an annual compensation study across IT companies and the data shows the CAGR in pay increases at the entry level has been less than 1.5 per cent over the last four years.

And he sees this trend continuing. As he says, "Companies find it difficult to increase at the junior levels, because that has a significant impact on their cost equations." So while the base remains enormous, they also end up being underpaid.

"Entry-level salaries are low in India and there is a huge gap between top-level and low-level salaries. There needs to be a collaborative effort in bridging the gap," admits M.V.S. Seshagiri Rao, Joint Managing Director and Group CFO, JSW Steel.

Globally, the differential between CEO pay and average worker pay has come into focus ever since the 2008 economic crisis, says Shriram Subramanian, Managing Director of InGovern, an institutional advisory that acts as a watchdog for shareholder interests.

But in India, he says, shareholders have always had a vote on CEO salaries as the Companies Act has always placed restrictions on payouts to directors. It cannot exceed 10 per cent of net profit for executive directors and one per cent of net profit is what non-executive directors collectively can get.

"It is important to factor in individual productivity at employee level before comparing the differential with other developed economies like the US and Europe. Also, the risk pay components in C-suite officers are substantial compared to lower-level employees and a historical generic differential calculation does not reflect this fact appropriately," says Hinduja Group's Tripathi.

Anurag Shrivastava of HRNext, however, says, "Inequality is part of the corporate game. The leadership quality and acumen you are looking

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GLOBAL COMPARISON

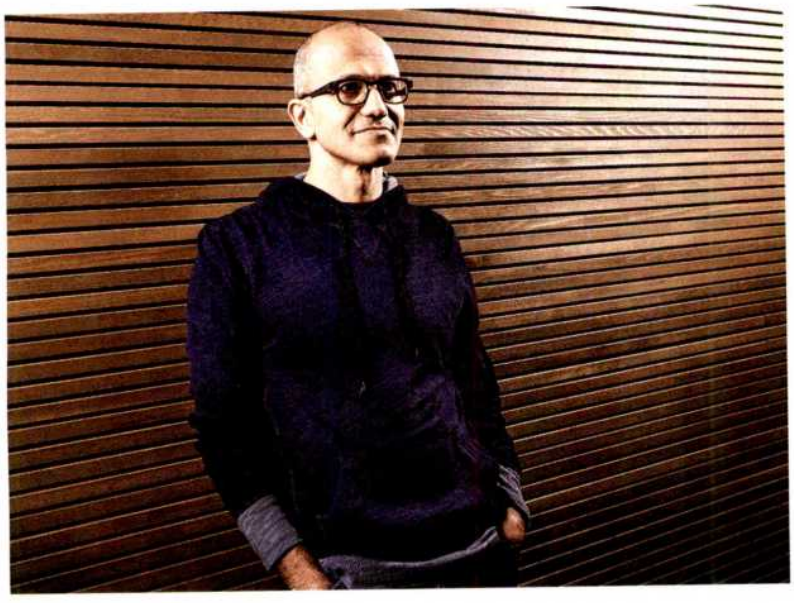
The variable component makes up a large part of CEO pay in North America and Europe

	TOTAL PAY	FIXED PAY	VARIABLE PAY	LTI**
CEO - Europe	€5,950,000	25%	23%	52%
CEO - North America	$16,500,000	16%	22%	62%

*Pay of CEOs at 75th percentile. These are for organisations with revenue more than $20 billion; **Long-term incentives

Source: Aon Hewitt

Microsoft CEO SATYA NADELLA's annual compensation of ₹525 crore ($84.3 mn) is equal to the pay of India's 14 highest paid CEOs



for in CEOs is pretty rare."

Sapient's Jacob says: "The higher differential is a function of multiple structural factors of our economy and the labour situation. The higher average pay increase is driven by macroeconomic factors like high inflation, labour demand and supply imbalance in particular, in comparison to low-inflation economies with a much-balanced labour demand-supply. The higher average increase has a direct impact on the slope of the pay line, which in turn translates into a higher differential."

Y.M. Deosthalee, CMD, L&T Finance Holdings, says the concept of median pay is a little misleading. "In the financial services sector, demand is very high for quality management people. As a result, their compensations are also high. When average compensation grows at 10 per cent annually at lower levels, at the management level the increase is 15 to 30 per cent. Quality is rare and there is demand for quality," he says.

Cutting across industries, the story is the same. As Dhoot of Videocon says: "The manpower shortage is felt at top and middle levels in most Indian companies, which is why salaries need to be increased for retaining the talent there. However, salary levels remain low at the bottom because of the availability of adequate talent in the country."

Sudarshan of EMA partners says that, for the most part, differentials will be highest in manufacturing companies and lowest in services companies. Indeed, the banking sector has low differentials. For HDFC Chairman Deepak Parekh, the figure is a low and respectable 19 times. That is because the median employee in a manufacturing setup may be a blue-collar worker while in a financial services firm, even entry-level employees are hired from business schools.

Promoter vs Professional

While most analysts do not grudge the professional CEO his or her salary, strangely it's the promoter's take-home pay that is actually getting a vote of no confidence.

Says Ranjit Shahani, Vice Chairman and MD, Novartis India: "The top 10 salary earners in the pharma industry are owners – but then owners can compensate themselves by dividends, too. There are many ways of remunerating oneself

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"CEO compensation is higher because of a reason. From an accountability standpoint, CEO roles are extremely demanding and require them to perform at all times"

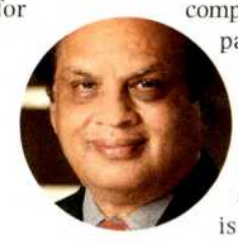
KAMAL KARANTH
MD - India, Kelly Services

if you are the owner. Having said that, it is equally true that promoter-driven companies will have to build a pipeline of professional leaders at the top if they are looking to make a mark in the global arena, much like what Infosys has done."

Ghose of Aon Hewitt agrees that promoter compensation in India rarely follows a defined structure, and it's rare for a board member to object to promoter pay. Unlike developed economies where there are compensation committees that look at salaries seriously, here it is a lot more arbitrary. "Globally, disclosure levels and shareholder activism drives discipline. While it was absent so far, things are changing in India with the new Companies Act and increasing presence of shareholder advisory groups."

Amit Tandon, founder director and MD of Institutional Investor Advisory Services and Subramanian of InGovern agree that most investors have not voted against CEO compensation, barring a few stray cases such as the one last August, when Tata Motors' shareholders defeated proposals on remuneration for three executives on the grounds that profits were not adequate.

Moreover, as Tandon, says: "If you look at the pay structure, there is a variable component. That is why investors are usually okay with CEO compensation. If a company performs, the CEO gets rewarded. But when we looked at the data, it was difficult to say if the CEO salary is going up faster



"Salary levels remain low at the bottom because of the availability of adequate talent in the country"

VENUGOPAL DHOOT, CMD, VIDEOCON

GENDER BENDER

A survey early this year found that, globally, women CEOs are outpacing their male counterparts when it comes to median pay, and in some cases year-on-year growth. Marissa Mayer, the head of Yahoo!, was the highest paid female CEO in a study by compensation data firm Equilar and Associated Press. She took home $42.1 million after her salary grew 69.1 per cent. Indra Nooyi of PepsiCo was number four on the list of top paid women CEOs, earning $19.1 million as her salary rose 45 per cent. Of course, there is a huge gap between the salaries of top male CEOs and top female CEOs.

Overall, the median pay for women CEOs rose 21 per cent in 2014 to $15.9 million, while the median pay for male CEOs dropped 0.8 per cent to $10.4 million. But that could be because the number of women CEOs is far less – rather minuscule in fact. The pay hikes are in line with company performance.

That prompted us to take a look at the salary growth of women CEOs in India. Rather than considering top paid women CEOs in India, we took a look at whose salaries had grown the most. Roopa Kudva, MD and CEO of Crisil, received a hike of 45.6 per cent, taking her salary from ₹3.3 crore to ₹4.8 crore. The salary of ICICI Bank's MD and CEO Chanda Kochhar grew a meager 12 per cent.

But it's the promoters who have got the highest pay hikes. The salary of Nisaba Godrej, Executive Director, Godrej Consumer Products, grew 83.5 per cent from ₹2.4 crore to ₹4.49 crore, while Balkrishna Industries' Executive Director Vijaylaxmi Poddar got a 51 per cent hike, taking her salary from ₹8.3 crore to ₹12.6 crore. Clearly, the disquieting trend of promoters and their family members taking home the bacon is seen among women as well.

NISABA GODREJ*
Executive Director,
Godrej Consumer Products

2014/15: **4.49**
2013/14: **2.45**
% INCREASE: **83.5** ▲

VIJAYLAXMI A. PODDAR
Executive Director,
Balkrishna Industries

2014/15: **12.67**
2013/14: **8.38**
% INCREASE: **51.1** ▲

All figures in ₹ crore unless otherwise mentioned; Executive Director in July 2014; **Resigned on May 1, 2015

RACHIT GOSWAMI

NISABA GODREJ, who turned around Godrej Agrovet, saw her salary surge 83.5 per cent in 2014/15 when she took home **₹4.49 crore**

ROOPA KUDVA**
Managing Director & CEO, Crisil

2014/15: **4.89**
2013/14: **3.36**
% INCREASE: **45.6** ▲

CHANDA KOCHHAR
Managing Director & CEO, ICICI Bank

2014/15: **5.85**
2013/14: **5.23**
% INCREASE: **12.0** ▲

Source: CMIE Prowess

than company profits. You don't get a straightforward answer."

Subramanian of InGovern says shareholders in India have always had the right to vote on CEO compensation, but few have the awareness to vote against. He says advisories like his are advocating that if promoters want payouts, it should be in the form of dividends rather than salary. Dividends make the distribution proportionate among shareholders. "The compensation paid to promoter directors should not be more than the highest compensation paid to professional employees," he says.

Tandon says that as an individual the promoter may not get paid a lot, but what shareholders need to watch out is how much the directors of a company are taking out as a family. A case in point is the Sun Group's Marans and Balkrishna Industries' Poddars. In many companies, wives, children, mothers seem to be executive directors with fat salaries even as their contribution to the company is not evident.

Emerging Trends

Going forward, a global compensation norm that we might soon start seeing in India is a greater focus around separation clauses, and joining bonuses. For instance, when L&T Finance Holdings was formed, Deosthalee, who was then CFO of parent company Larsen & Toubro, had been appointed as the CMD of the new subsidiary and given retiral benefits while moving to the subsidiary as compensation.

Sudarshan of EMA Partners says, "At the senior level, a joining bonus is a given, as invariably at the senior level, you have to leave behind something when you quit a job. Companies don't pay it for fun. There is a good reason for it, as someone is losing an assured sum of money, one year down the line." According to Sudarshan, this is either paid through stocks, or cash up front.

Ghose of Aon Hewitt says CEOs themselves are driving the conversation around joining bonuses and separation clauses. "Today, individuals are becoming far more careful. What if the business closes down? All these eventualities are getting factored into the contract," he says.

Companies are also being far more sensitive to retiring top management by providing housing support and facilities like usage of clubs for a period after retirement.

"We see a lot of forward-looking companies bringing in schemes like paid maternity leave, sponsoring educational programmes for C-suite employees outside the country, and helping with admissions of their children in good schools," says Karanth of Kelly.

In the future, CEO salaries will continue to rise. Experts say that is not a bad thing but companies must find a way to reduce the disparity. ◆

ADDITIONAL REPORTING BY NEVIN JOHN, P.B. JAYAKUMAR AND VENKATESHA BABU

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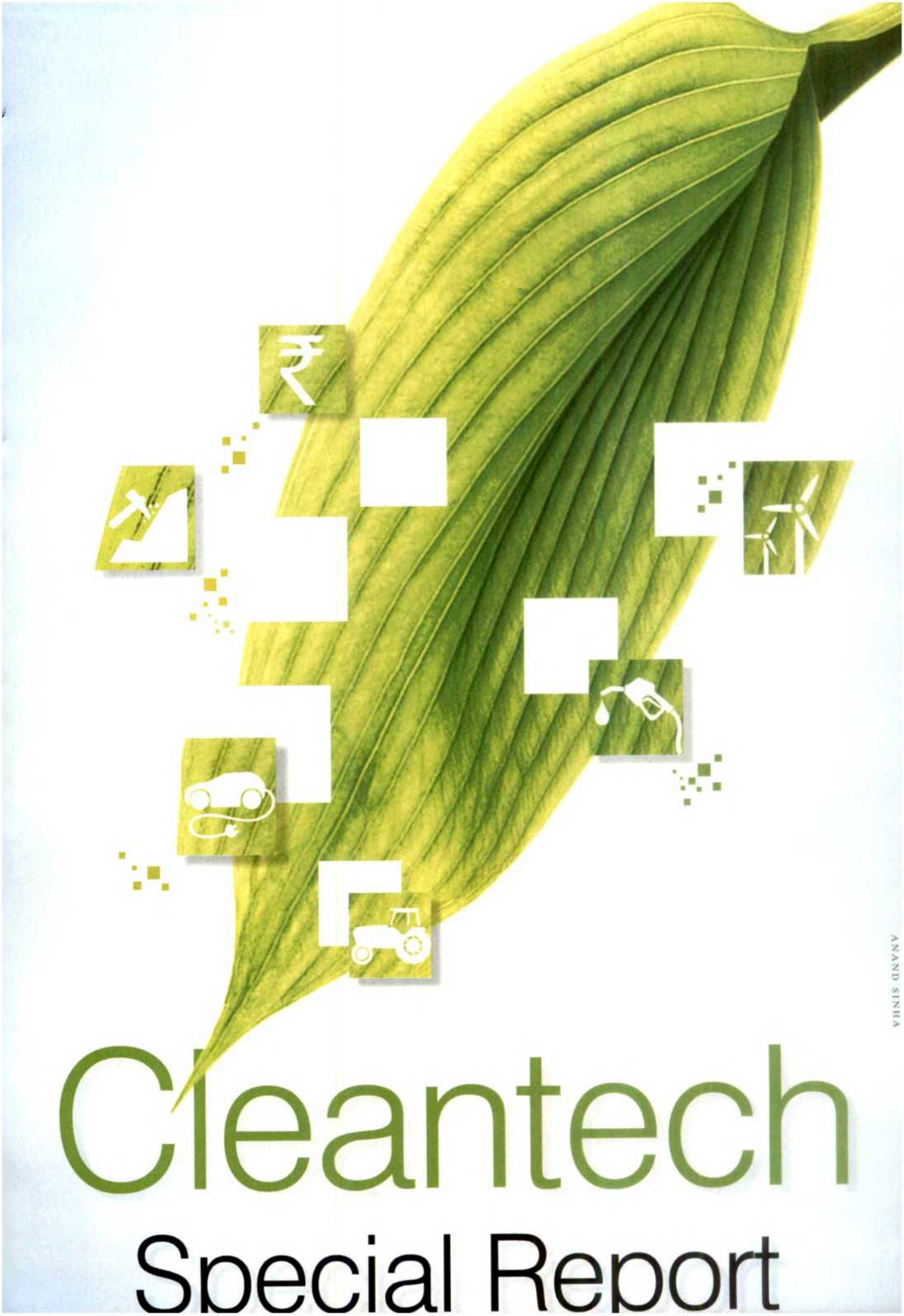


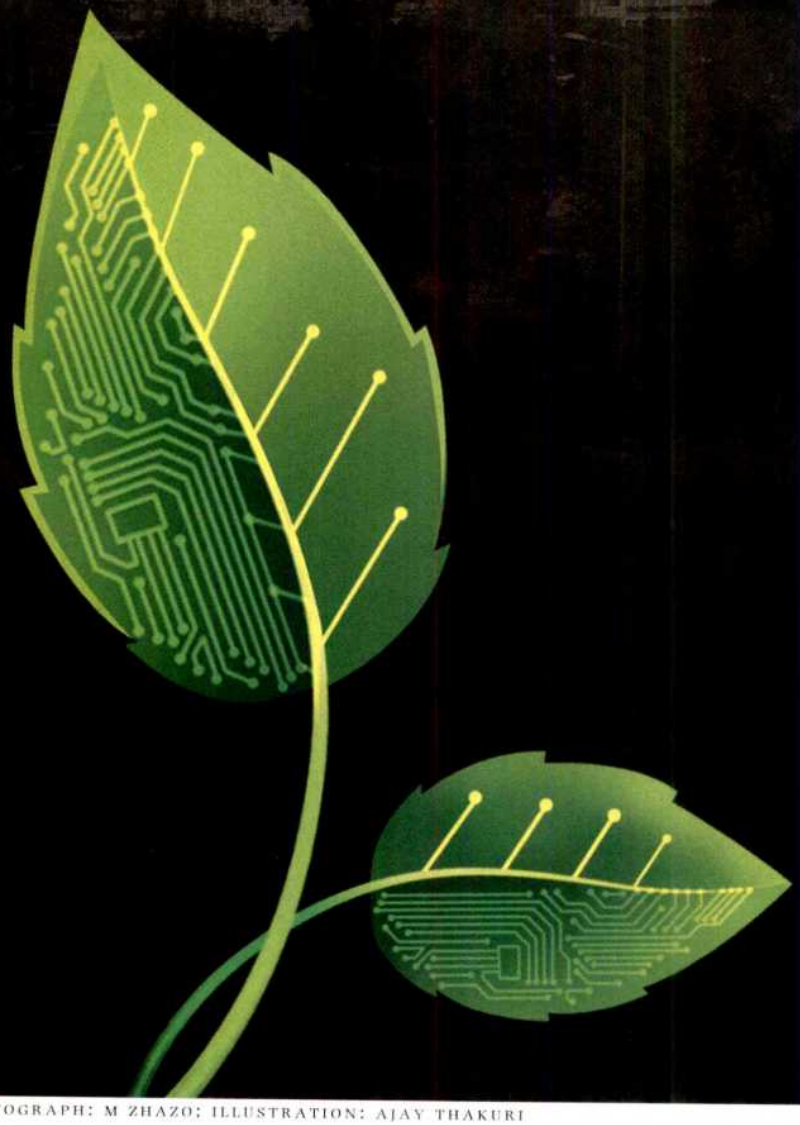
Cleantech

Special Report

ANAND SINHA

Building a Smart, Clean Future

Innovations in clean technologies could help India and the world set the Doomsday Clock back in time. By ANILESH S. MAHAJAN



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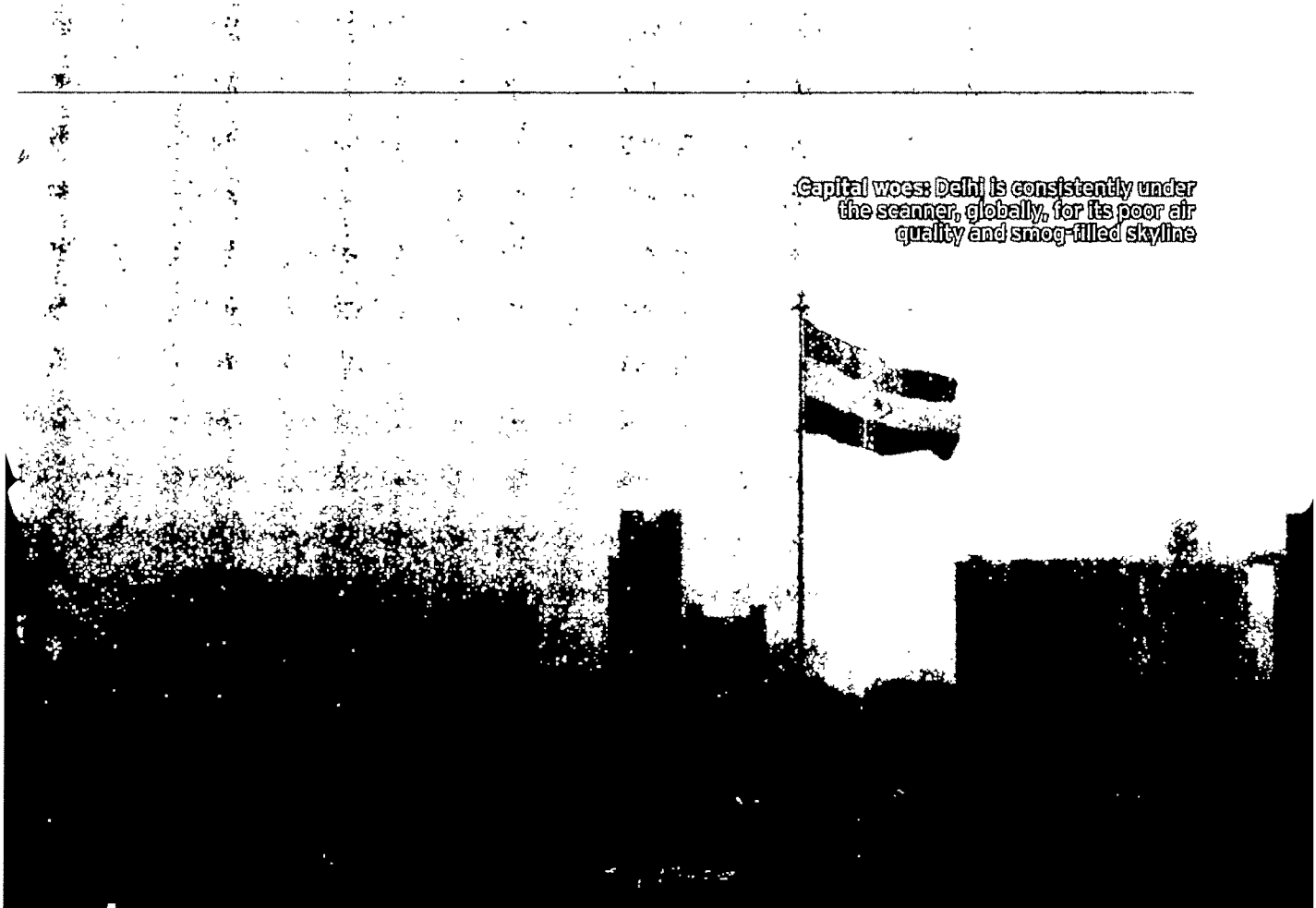


Capital woes: Delhi is consistently under the scanner, globally, for its poor air quality and smog-filled skyline

India is in two minds. Whether to commit and set deadlines towards limiting its own emissions, or continue to push rich nations to fund developing countries to help tackle global warming and share climate-friendly technologies. The recent agreement between Washington and Beijing to have a shared roadmap to cut their greenhouse gas (GHG) emissions has only added to its woes.

India, the third-largest emitter of GHG, after the US and China, is, however, expected to announce a target year for its carbon emissions to peak before the upcoming United Nation's Climate Change Conference in November-December, 2015, in Paris. It has so far refused to make its stance clear.

The Indian government is aware of the far-reaching impact of climate change. In fact, it has been steadily working towards a roadmap to lower carbon emissions by promoting policies and measures reflecting the total scope of the international climate policy that includes its commitments towards climate finance, technology cooperation, capacity building and the cost of climate change impact. The international community, however, wants India to do much more.

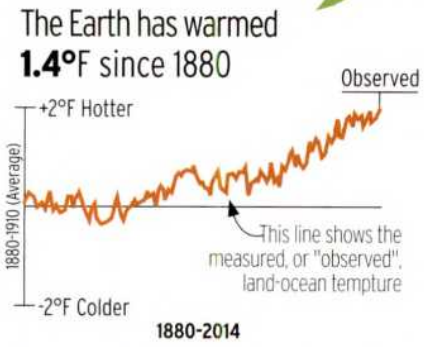
Moreover, the Centre is also feeling the heat from institutions back home. While the National Green Tribunal has been putting pressure to cut vehicular pollution, the Supreme Court, too, has come down on the government asking it to fulfill its constitutional obligations. "The right to live a healthy life guaranteed under Article 21 of the Constitution of India... includes the right to live in a pollution-free environment...." the apex court observed while making renewable energy purchase mandatory for state distribution companies with an aim to "protecting the environment and preventing pollution as much as possible in public interest".

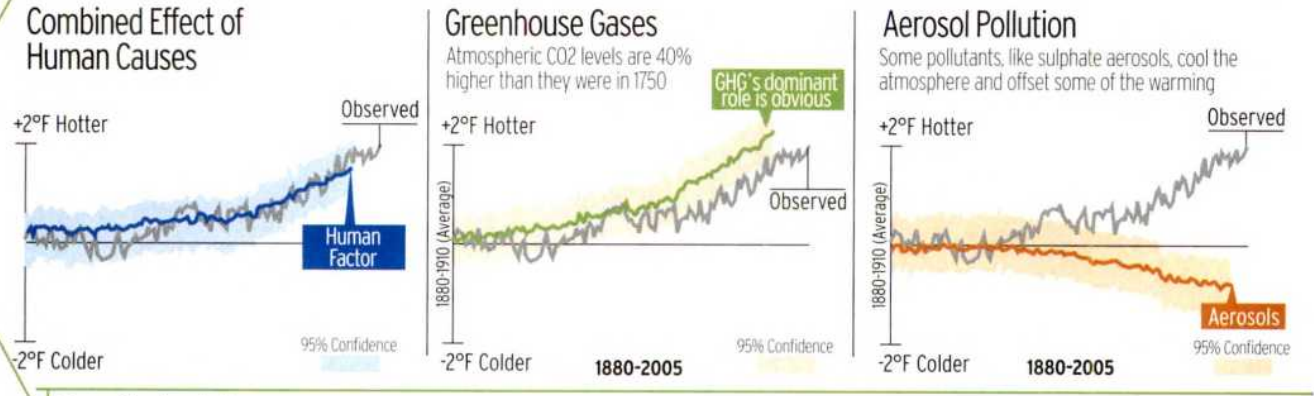
Besides, the Centre is also well aware of the negative impact of global warming on the country's economy, as unseasonal rains and erratic monsoons are increasingly being associated with climate change, and the added financial burden it would put on the Centre's coffers. Therefore, Minister of Environment, Forest and Climate Change, Prakash Javadekar's biggest challenge is to strike a balance between the aspirations of Prime Minister Narendra Modi to resurrect India as a manufacturing hub, while meeting international commitments to limit

SO WHAT IS TO BLAME FOR THE RISE IN TEMPERATURE?

WHO WARMED MY PLANET?

2014 was indeed the hottest year in recorded history. Should we blame natural causes or human causes for climate change?





Source: Bloomberg Business

DAMAGING IMPACT: Six of the world's 10 most polluted cities are in India

Delhi, India	Patna, India	Gwalior, India	Raipur, India	Karachi, Pakistan
153	149	144	134	117

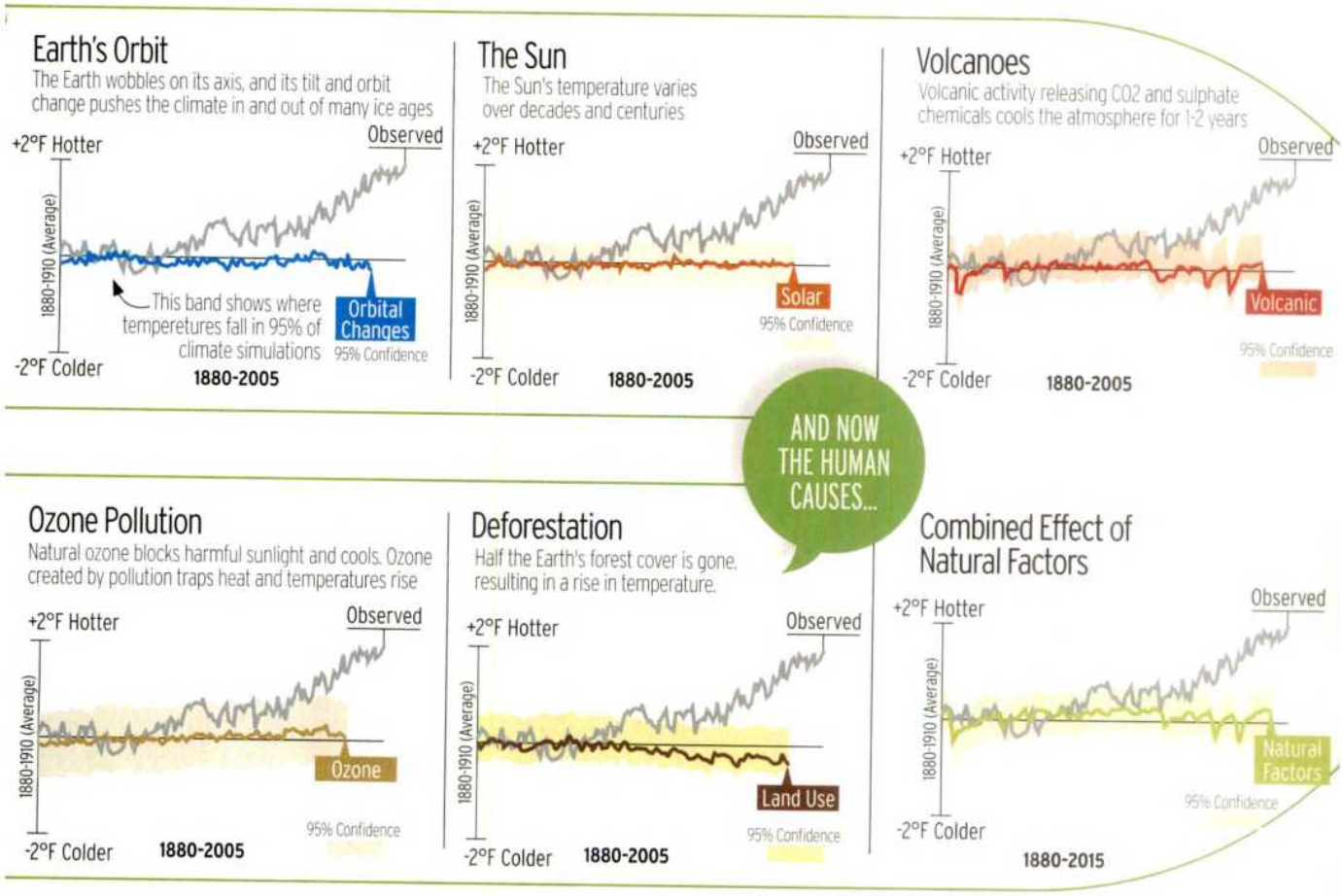
Figures are micrograms of PM2.5 per cubic metre; As per WHO guidelines, PM 2.5 (fine particles less than 2.5 micrometres in diametre) should not exceed 10 micrograms

global warming to two degrees Celsius by 2100.

Realising that clean technologies will be its primary weapon to win the battle against global warming, India has put in place certain measures. It has finalised the roadmap to build the infrastructure for 175 GW of renewable energy in the next seven years, which would roughly translate into 20 per cent of the grid capacity in 2022. This will include 100 GW of solar power and 60 GW of wind energy, apart from bringing to life 14 GW of the 23 GW gas-based capacity that has already been installed.

The government is also trying to introduce clean technologies that would help reduce emissions from the conventional methods of power generation using fossil fuels. While fast-tracking clearances of coal mining projects to achieve the government's power generation target, Javadekar has promised transparency in improving and introducing environment-friendly coal mining methods, including underground mining, that would ensure highly-efficient carbon capture and storage technologies, and removing pollutants from and dewatering of coal, to lower SO_2, NOx and CO_2 emissions and increase efficiency in generating electricity.

India is aggressively promoting supercritical thermal power plants, which emit 34 per cent less CO_2 compared to conventional methods, by investing in technology development. The Indira Gandhi Centre for Atomic Research, Bharat Heavy Electricals and state-owned NTPC have joined hands to design the first ultra-supercritical thermal power plant to cut



Peshawar, Pakistan	Rawalpindi, Pakistan	Khormabad, Iran	Ahmedabad, India	Lucknow, India
111	107	102	100	96

per cubic meter. Source: World Health Organization

CO_2 emission by another 12 per cent.

At the same time, however, India has made it clear to the world that coal will continue to be a critical part of the energy mix till the time it resolves the cobweb of geopolitics around its nuclear-based generation capabilities.

In the past one year, India has resolved its uranium supply glitches with Canada and Australia, and has also got Russia to commit 10 new reactors. However, to speed up the installation of nuclear power plants it would still require the support of Japan and the US.

Among other such initiatives, the Centre has been pushing refineries and automakers to look for ways to skip Bharat Stage V emission standards, and leap to cleaner Bharat Stage VI stage directly. April 1, 2017 is deadline for BS V stage. It is also keen to optimise the use of petrol and diesel and reduce oil imports by 10 per cent by the end of 2022. Besides, as part of its smart cities initiative, it is working on setting up the required infrastructure to adopt electric cars. Various local bodies in India have shown interest in adopting premier oil and gas company Shell's indigenously-developed technology to convert garbage into fuel, which is in its final stages.

In the cleantech package stitched together by Team *BT*, a host of technological innovations and advancements have been featured, which if implemented, may help India meet its international obligations earlier than expected and, at the same time, give its environment the much-needed breath of fresh air. ◆

@anileshmahajan

Driving into the Future

From hydrogen fuel-cell vehicles to synthetic diesel, automakers globally are working on next-gen technologies to make automobiles cleaner and greener. By DIPAK MONDAL

GOING HIGH-TECH
New technologies that automakers are using

CYLINDER DEACTIVATION
Shuts down some cylinders of the engine, thus reducing fuel consumption and emissions

ENERGY REGENERATION BRAKES
Converts kinetic energy of the vehicle into electric energy, which charges the battery. This reduces fuel consumption, thus lowering emission

The BMW i8 is among a handful of globally popular hybrid vehicles available in India

In early 2014, German luxury car maker Mercedes-Benz introduced the new C-Class sedan where it used an aluminium hybrid body that reduced the vehicle's weight by 70 kg. The lighter weight, says Mercedes-Benz India MD and CEO Eberhard Kern, cuts fuel consumption by up to 20 per cent. "The technical features developed by Mercedes-Benz are not merely aimed at enhancing its performance in motorsports, but are also actively used to develop stylish, safe and innovative vehicle concepts for the future," he says.

Like Mercedes-Benz, many automakers globally as well as in India have been working to make their vehicles – a major source of air pollution – greener. These efforts can be broadly categorised into three segments – changes in combustion engines technology, development of hybrid technology and cleaner fuel. BMW and Toyota Motor, for instance, are jointly trying to develop a hydrogen fuel-cell vehicle by 2020 that would convert hydrogen into electric energy and water vapour, making driving emission-free.

Similarly, Audi has developed e-diesel, or synthetic diesel, by combining carbon dioxide with water. This diesel, less polluting than other fuels, can be blended with normal diesel to run vehicles. Audi also uses the cylinder deactivation technology in its RS7 and RS6 models in India. The technology enables the shutting down of some cylinders of the engine when the car is running in cruise, or light-load, mode. This helps save fuel and lowers emissions.

Another fuel-saving, low-emission technology used by automakers such as Ford, Volkswagen, BMW and Tesla is the regenerative brake

COMPACT ENGINES
Lesser displacement, lower friction and thus lower loss of energy

DIRECT INJECTION
Directly pushes high-pressured fuel into the combustion chambers, allowing the fuel to burn more evenly

HYBRID TECHNOLOGY
The vehicle uses both electric and hydrocarbon-based fuels. It lessens dependence on fuels that create pollution

system that converts kinetic energy (energy from a moving object) of the vehicle into electric energy, which then charges the battery. BMW calls this technology EfficientDynamics. According to BMW, this technology cuts fuel consumption by up to three per cent. Philipp Von Sahr, President, BMW India, says the technology powers the company's entire product portfolio in India.

Automakers are also working to reduce the size of engines and weight of the car's body to lower fuel usage. Compact engines mean lesser displacement, lower friction and so lesser loss of energy. Most compact engines use direct injection and twin turbocharger technologies to compensate for the power sacrificed due to downsizing of the engine. A turbocharger uses the exhaust gas to power the turbines, while the direct injection technology directly pushes the high-pressured fuel into the combustion chambers, allowing the fuel to burn more evenly. All these lead to better efficiency and lower emissions. Automakers use this technology under different names. Volkwagen calls it TSI technology. Ford has named it Ecoboost, while Suzuki calls it Boosterjet. Volkswagen uses the TSI technology in its Polo hatchback, and Vento and Jetta sedans in India. Ford uses the Ecoboost in its EcoSport sport-utility vehicle.

But no matter how stringent the emission norms are or how sophisticated combustion engines become, vehicular pollution will remain a pressing issue. The need, therefore, is to move towards hybrid technologies that use a combination of electric and petrol or diesel engines. Some popular hybrid models available in India are Toyota Prius, BMW i8, and Toyota Camry Hybrid. Mercedes, Maruti Suzuki and Hyundai have plans to launch hybrid versions of popular cars. Maruti is in the trial phase of the Swift Range Extender, an electric vehicle with an engine driven generator. Mahindra e2o is the only pure electric car available in India.

TESLA MODEL S
The electric car can run 270 km on a single battery charge with a top speed of 220 kmph

A big challenge in making hybrid or pure electric cars popular in India is the high cost of owning and maintaining the vehicle. Electric vehicles also need an ecosystem – such as charging points – to become popular. Besides, performance of electric vehicles available in India does not match global standards. The Mahindra e2o can cover 120 km on full battery charge at a maximum speed of 80 kmph. In comparison, US automaker Tesla's Model S electric cars can run 270 km with a top speed of 220 kmph.

The Indian government plans to promote hybrid and electric vehicles through the National Electric Mobility Mission Plan. As per the plan, the government will give up to ₹1,500 crore in monetary and fiscal incentives to companies and customers, and aims at ₹62,000 crore savings in fuel imports by 2020. "The government plans to subsidise the production cost of electric vehicles so that they are available to users at lower cost. The government has allocated ₹75 crore towards this cause," says Ayush Lohia, CEO, Lohia Auto Industries, which has sold 20,000 electricscooters since it began operations in 2008. "Electric vehicles can become popular only if there is full government support to create an ecosystem for such vehicles," he adds. ◆

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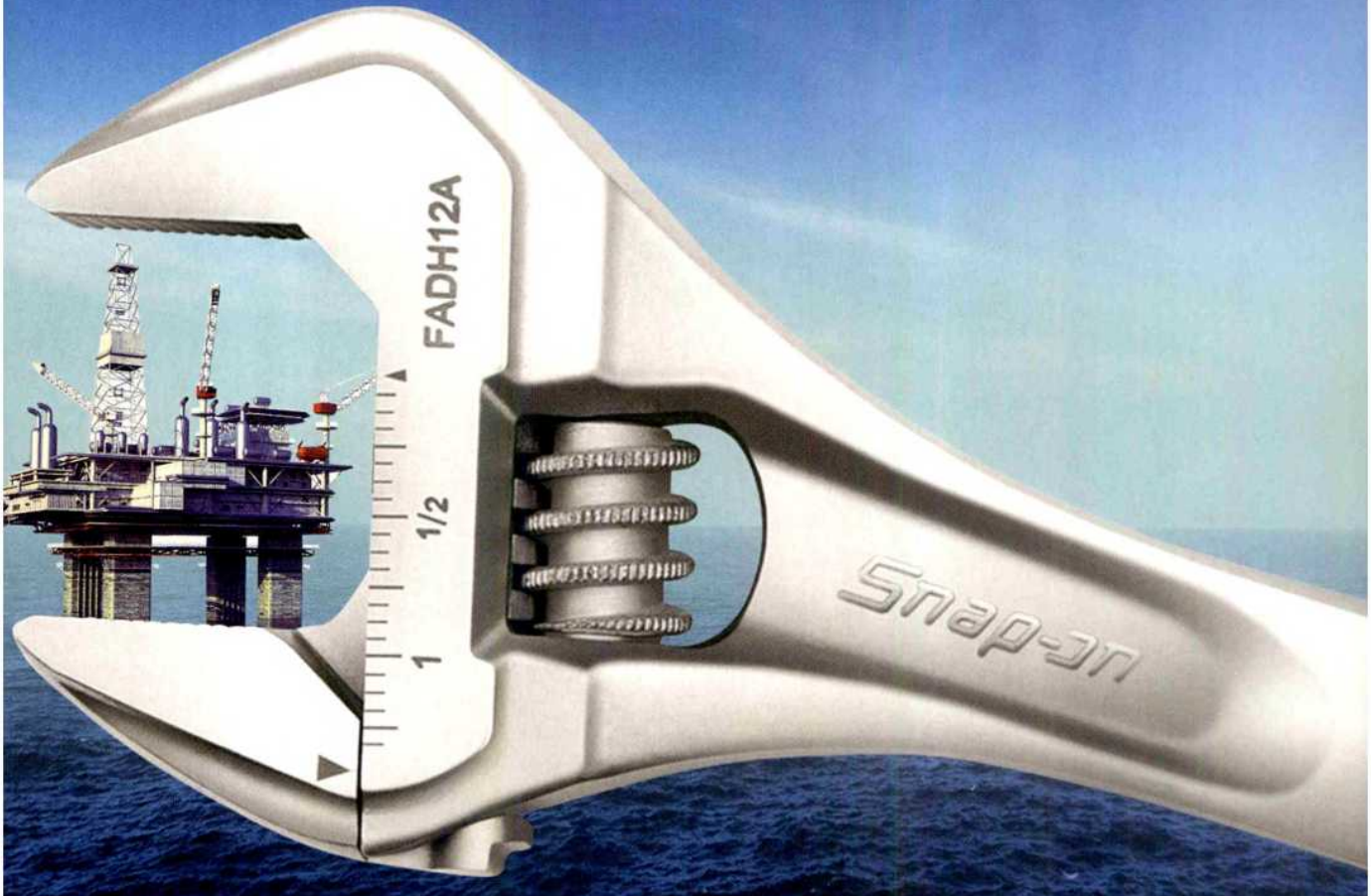

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SOLVING THE CRITICAL

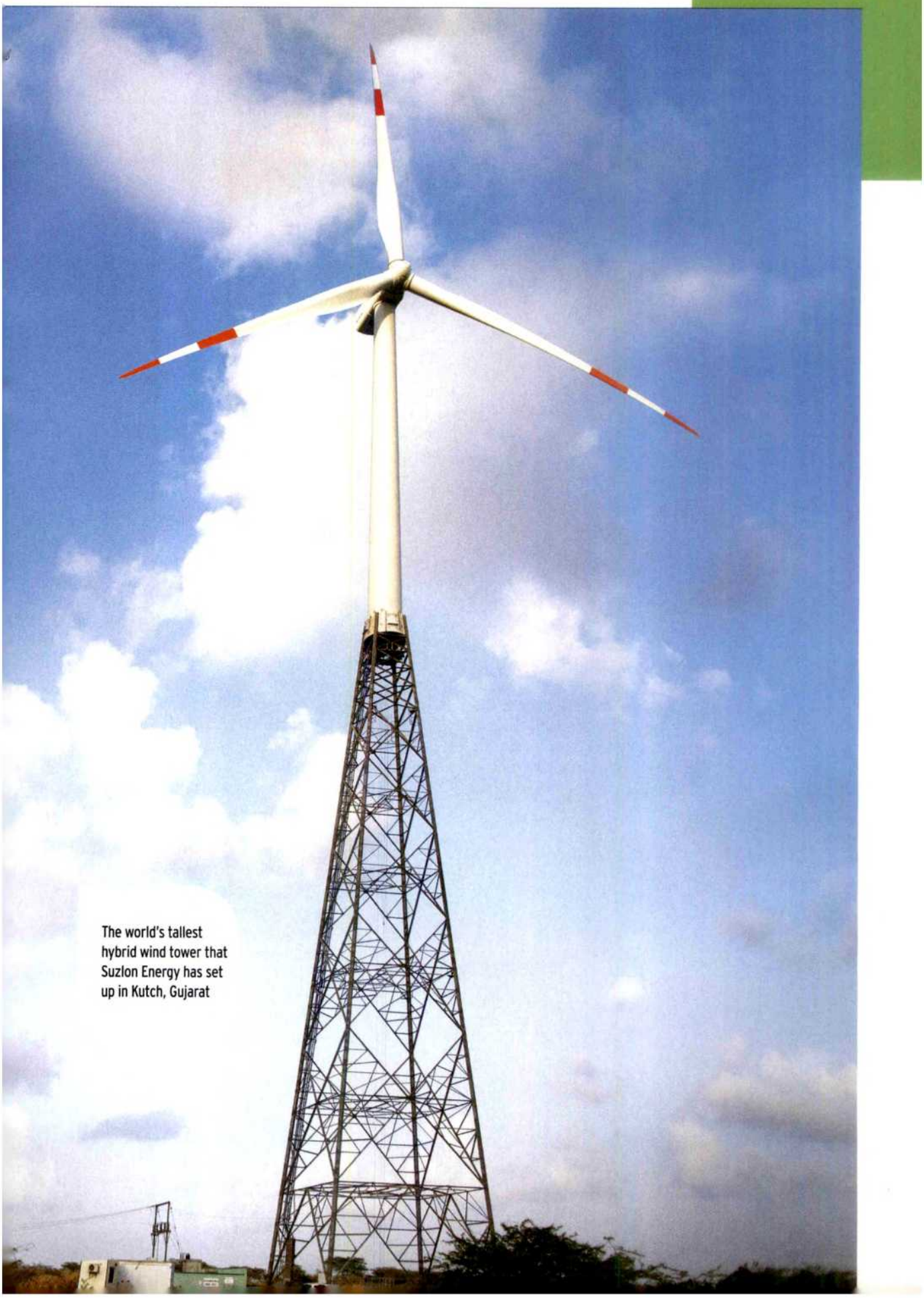
Exploring Greener Options

Several Indian companies are adopting cutting-edge technologies to improve the generation and storage of wind and solar energy. By P.B. JAYAKUMAR

How many times have you heard about, much less seen, a floating solar power plant? However, if Enzen Global Solutions, an energy technology company based out of Bangalore, has its way, India will soon see a rollout of technology for building solar power plants that float on water. It has licensed the technology from French company Ciel & Terre.

The manufacturer says these plants are more simple and affordable than the ground-based systems. They are also 11 per cent more efficient. But most importantly, they will solve the problem of land acquisition – around six lakh acres – for the 100 GW (100,000 megawatt or MW) solar power capacity the government plans to add by 2022. "We are setting up a demonstration plant at our headquarters and will soon start marketing the product," says a spokesperson for Enzen.

Like Enzen, hundreds of companies across the world are spending a lot of time and money to make production of renewable energy more efficient to close the price gap with energy from



The world's tallest hybrid wind tower that Suzlon Energy has set up in Kutch, Gujarat

"Such tall turbines make low-wind sites viable and generate 12-15 per cent more than the other turbines of same capacity"

TULSI TANTI, Chairman and Managing Director, Suzlon

conventional sources such as coal. Some are already helping India meet its ambitious renewable energy targets. For instance, Sun Edison, a US-based renewable energy company, inaugurated a 50-MW solar power plant at Dammakhedi in Madhya Pradesh on June 30. It is the first solar power plant in the state to use the 'single axis tracker' technology – which ensures that solar panels keep changing direction with the sun and so absorb more sunlight – to increase production.

"Tracking increases production up to 30 per cent. It will have a good market in India," says Aditya K. Singh, Managing Director of Mumbai-based Rolta Power, which makes solar photovoltaic (PV) modules. Rolta last week joined hands with China-based Zhenfa New Energy Science and Technology Company to set up tracker projects in India. Zhenfa runs a 100-MW plant in China that is said to be the world's largest solar tracking project.

A report by GlobalData, a consulting and research firm, says capacity under solar trackers in the country is expected to rise from 103.5 MW at present to 312 MW by 2020.

Bratin Roy, Vice President (Industry Services), South Asia, TÜV SÜD, a certification company, is hopeful about these developments. "From innovations in PV cells to new storage solutions, numerous technologies are being researched that are highly relevant to India," he says.

For instance, at the generation stage, one of the biggest drawbacks of current solar panels, made from crystalline silicon cells, is inefficiency. They are able to convert only around 16 per cent sunlight into electricity. Scientists are working to take this to 50 per cent. The most promising innovations here are 'multi-junction cells' or 'quantum dots', which can absorb more energy from solar rays. These are made from super-efficient semiconductor materials such as perovskite and gallium arsenide. The latter can make solar PV systems nearly three times more efficient than the existing products. It, though, is costly, the reason why its use is limited to applications such as satellites. Perovskites, made from inexpensive ingredients such as lead and ammonia, increase efficiency by 20-24 per cent. However, both these are still at the research stage.

Then there is the issue of storing power. Solar power generation is possible only during the day. Wind, too, is not available 24x7. "In wind and solar energy, the biggest challenge is storage. For example, a 50-MW plant requires a couple of acres for setting up storage devices," says Mahesh Makhija, Director, Business Development (Renewables), CLP India, which has the largest wind power capacity in India and is planning a foray into solar energy. Roy of TÜV SÜD says technologies being developed in this area include charge controllers, which limit the rate at which power is added to or drawn from the system, and batteries made from materials that increase storage by three times and life by four times. There is also a huge interest in PV panels with built-in batteries.

A floating solar power plant of Ciel & Terre in Japan

In wind, most experiments revolve around changes in the height of wind mills and development of

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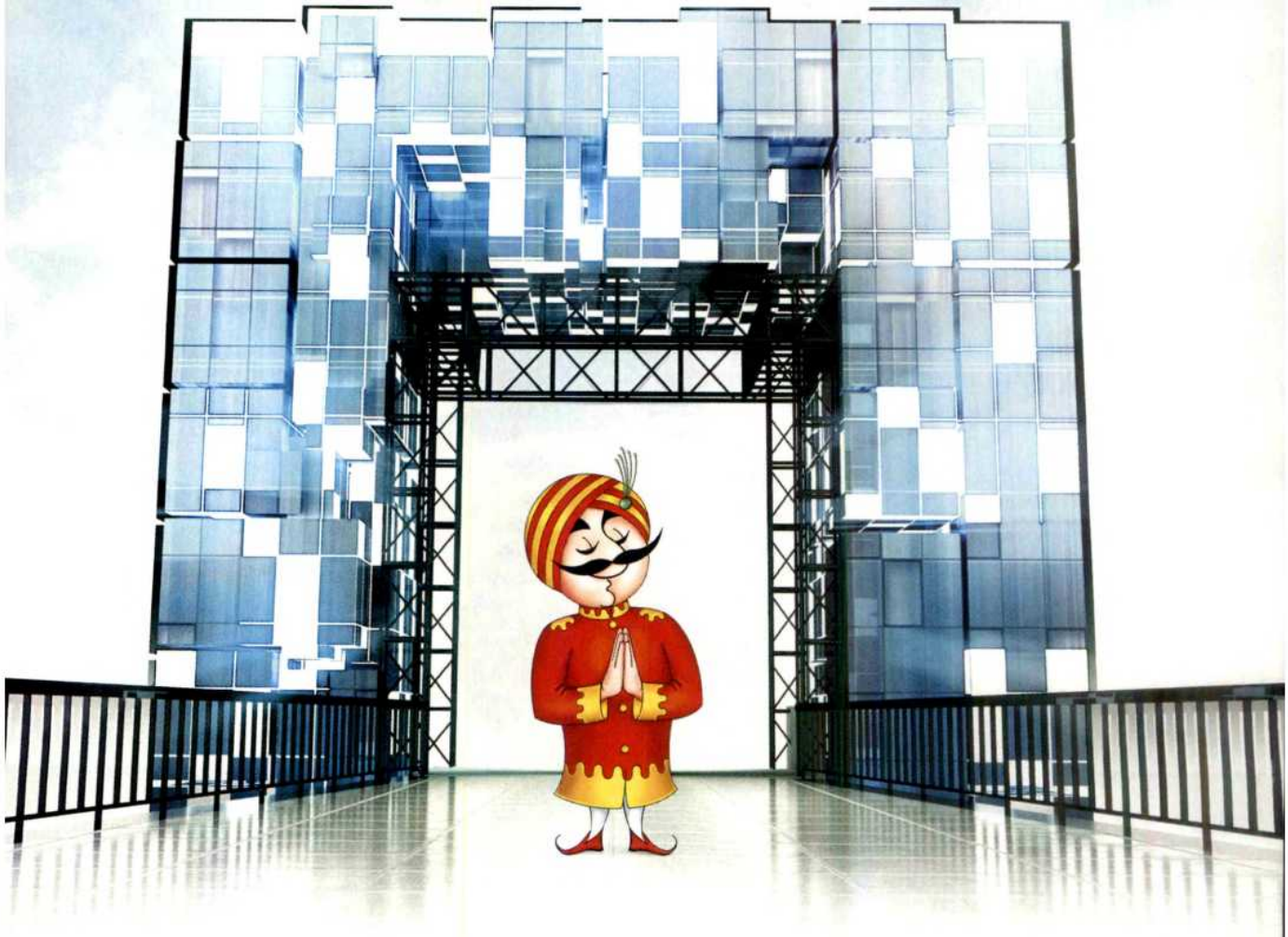

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"From innovations in PV cells to storage solutions, numerous technologies are being researched that are highly relevant to India"

BRATIN ROY, Vice President (Industry Services), South Asia, TÜV SÜD

lighter turbines and generators. The more the height, the higher the wind speed. In November last year, Suzlon Energy set up the world's tallest hybrid wind tower (120 metres) in the Kutch region of Gujarat. The usual height of an onshore wind turbine is 60-90 metres. "Such turbines make low-wind sites viable by generating 12-15 per cent more than the other turbines of same capacity," says Suzlon Chairman and Managing Director Tulsi Tanti.

Suzlon has won a 90-MW order from ReNew Power for installing 43 such wind turbine generators with rated capacity of 2.1-MW each in Ratlam district of Madhya Pradesh. The project is scheduled for commissioning by March 2016. Duncan Koerbel, Chief Technology Officer, Suzlon, says experiments are also on to develop more efficient, longer and lighter blades from carbon and fibre, instead of steel and glass, as these are more flexible and have a lower chance of developing cracks. Aerodynamic experts are also working on smaller turbines for more efficiency.

Although more height is a big plus, there is a lack of cranes that can erect such huge structures, made from tonnes of steel and concrete. Also, the higher the tower, the more costly it is to build the concrete platform. So, efforts are on to reduce costs through innovations such as 'self-erecting turbines', says Duncan. One solution, developed by the US-based Altaeros Energies, is buoyant airborne turbines (BATs), a mix of blimp and lightweight turbines. A blimp is an airship without a structure. It relies on the pressure of the lifting gas inside the envelope and the strength of the envelope to maintain its shape. What Altaeros does is to attach the turbine to a blimp filled with helium so that it can be hooked up from anywhere and mounted in a day. Altaeros has tested BATs till 300 metres. "We keep monitoring next-generation technologies and are planning to tie up with suitable partners," says Duncan. ◆

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SMART GRID

India is also working on several projects for building smart grids to make electricity supply more reliable and efficient. This will reduce the huge transmission and distribution losses of power companies.

A smart grid uses information & communications technology to gather and act on information – such as about the behaviour of suppliers and consumers – to run the system more efficiently. For instance, it shuts off the supply as soon as power utilities start drawing more power than the system can generate. It also evens out the mismatch between demand and supply by tracking the behaviour of both suppliers and consumers on a real-time basis.

In Gujarat, a pilot project is being run in industrial and residential areas of Naroda in Sabarmati and the agricultural village of Deesa in Palanpur. The proposal is to cover 20,524 consumers in Naroda and 18,898 agricultural unmetered consumers in Deesa. The ₹49-crore project is aimed at managing peak load, outages and quality of supply. It is also looking at aspects such as load forecasting and management of power assets.

A similar ₹33-crore project is being run in the additional city area division of Mysore. The project, involving 21,824 residential, commercial, industrial and agricultural consumers, is being implemented by Enzen Global.

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Precast Technology helps reduce project cost and enables developers to deliver projects within the stipulated time frame. Today, the technology is incorporate in Amrapali Group's two mega projects named Amrapali Verona Heights and Amrapali Dream Valley

Dream Valley Project-construction using precast technology (actual site photo)

PRECAST Unit offers low maintenance, earthquake-resistant structure, quality construction, flexibility, wastage control, minimum manpower requirement, sustainable design, speedy and quality construction. Hence, we, the AMRAPALI group, as a real estate developer had foreseen the situation of tackling labour crunch and time delays in projects a few years back. In order to tackle these issues from a grassroot level, we had taken a decision to set up our own precast factory at Kasna, Greater Noida, which is now Asia's largest and modern precast unit. The factory is spread across 25 acres and is going to have the largest production capacity with 50 lakh sq. ft. per year in India. By using this, the quality of our product will be enhanced and we will be able to deliver the projects well within the stipulated time-frame. Dr. Anil Kumar Sharma, CMD, Amrapali Group, said, "this technology have been incorporated initially in two of our mega projects, named Amrapali Verona Heights and Amrapali Dream Valley at Greater Noida-West (earlier known as Noida Extension), which consists of custom- designed precast concrete components like roof slabs, beams, columns, wall panels etc. and offers flexibility in shape and size with a variety of surface finishes and colours. This technology promises us a world of creative possibilities in application and design, which is offering an abundance of choice for the architects and engineers to create buildings unique in character and of exceptionally high quality. These components are manufactured in a strictly controlled environment with state of the art machineries, and are erected at the site with the help of tower cranes. The components are then joined to each other as per specification with grouts and screed to provide strength to the structure". Amrapali Group did extensive research on the technology and its suitability in the Indian context and we found that this technology can contribute to sustainable design in many ways. It is versatile and durable material, produced by trained personal with virtually no waste, under stringent quality control measures. Precast panels can be quickly erected on the job site with minimal disruption to the site and precast thermal mass can save energy and increase comfort. The technology is very versatile and is equally suitable for all types of construction may it be high rise, low rise villas, commercial complexes, parking lots, etc. Major advantages of this technology are structural stability, speedy and quality construction, wastage control and less manpower requirement. Other than this the strength of this technology is, low maintenance, seismic resistance, quick turnover of money and universal applications. This precast concrete manufacturing unit at Kasna has been made on a plot area of 1,00,000 sq. metres and the types of precast products used were:

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Fuel from Garbage

How Shell's India R&D centre is hoping to make this a reality.

By VENKATESHA BABU

Nearly 80 per cent petro products consumed in India are made from imported crude oil. The country has been searching for alternative energy sources, using technology, for years. Global oil major Royal Dutch Shell may have an answer.

A catalyst being developed by Shell Technology Centre Bangalore (STCB), one of the three tech hubs of Shell besides the ones in Houston and Amsterdam, holds out the promise of converting agricultural and municipal waste into liquid transport fuel. India produces 60 billion tonnes of municipal waste and 200 million tonnes of agricultural waste every year. If the experiment succeeds and is commercialised, it could generate 60-80 million tonnes of biofuel and meet a large part of India's energy needs.

Shell labels the conversion process, developed in partnership with the US government-funded Gas

Baroruchi Mishra (left), VP-Engineering (East), Shell Projects and Technology, and Laxmi Narasimhan, GM, Centre for Novel Catalytic Materials at Shell's Bangalore R&D Centre

NILOTPAL BARUAH

See interview with Laxmi Narasimhan at businesstoday.in/shell-narasimhan

WHY JATROPHA AND ETHANOL FAILED

Jatropha was touted as a miracle plant for oil-starved nations. A hardy leafy and green plant, it thrives in semi-arid climates and low-nutrient wastelands, providing a steady supply of bio-diesel.

India, which has over 67 million hectares of wasteland, allotted a million hectares of land to grow the plant in 2009. It has still not yielded the desired results. The crop yield was estimated during trials at 10 tonnes per hectare. It turned out to be a fifth of this.

Farmers realised that the plant did not grow in alkaline and saline wasteland. Jatropha was said to require no irrigation whereas in reality it required some amount of water. It also suffered some diseases, reducing its yield.

Ethanol is an alcohol fuel that when mixed with petro products can reduce cost and lower the impact on the environment. Even though the Centre has mandated 5:95 blend of ethanol and petrol, the current blending rate is less than 1.5 per cent. Oil marketing companies and ethanol manufacturers blame each other for this.

India requires about 115 crore litres of ethanol to meet the 5 per cent target. Sugar mills and co-operatives, which are the major producers of ethanol, say the current price of ethanol fixed by the Centre, ₹48.5 a litre, makes it unviable.

Technology Institute, as IH2 (IH Square).

The emphasis is on producing biofuels that can be used with existing engines and infrastructure. Globally, several companies are trying to produce biofuels using pyrolysis, a method under which biomass is subjected to high pressure and heat in an atmosphere that does not have oxygen. This leads to decomposition, yielding solids, liquids and gases. The gases, which are rich in carbon, can be liquefied to make biofuel. Apart from Shell, others such as Ensyn and Kholsa Ventures-backed Kior have also tried their hand at this.

Laxmi Narasimhan, General Manger, Centre for Novel Catalytic Materials at the Bangalore centre, who has the professorial air of an academic, explains how the IH2 process works. "We take city waste, crop residue, wood/forest residue, energy crops and algae, which are then sorted, sized and dried. These are then fluidized where a proprietary catalyst system takes over... What mother nature takes millions of years to do, we do it in 90 seconds, and the result is a distilled hydrocarbon." He says Shell has filed for nine patents.

Alan Del Paggio, Vice President, CRI Catalyst Company, a part of Royal Dutch Shell, says that this method does one better than nature. "Nature produces crude oil, but what we produce is refined oil, which is ready to be used." Today, the end-distilled hydrocarbon can yield gasoline, jet fuel and diesel. If the technology comes to fruition, says Baroruchi Mishra, VP Engineering (East), Shell Projects and Technology, it can deal with a lot of challenges that India faces. "Agricultural waste, which farmers burn, could prove to be an enormous boon if harnessed in the right manner. We are not in a rush to bring this to the market as we want to iron out all the possible kinks by running pilot plants. We are not declaring victory early. However, we are confident of success as it is a proven technology. We have to only ensure scalability." Shell and Mishra are hoping that the government will work with them to take it to the commercial stage.

Shell wants government support in interfacing with farmers, handling of municipal waste and putting up plants to ensure that the technology works at scale. "We want local governments to have skin in the game and this to be a genuine public-private partnership. This is not about money. We have already spent $40 million on this and are ready to spend more. But the government will have to work with us to ensure that the plants are up and running. We hope to have this commercialised in 15-18 months, hopefully with the government's support," says Mishra.

What about competitors? Paggio is dismissive on that score. He points out that while Kior is in the process of restructuring after going into receivership, Ensyn has had financial difficulties. Ensyn's products, claims Paggio, have low calorific content and can be used in things such as boilers but not in vehicles. "The market they are addressing is much more limited," he adds.

There have been several attempts to convert garbage into fuel, but Shell, with its IH2 technology, seems to have come closest to making this a commercial reality. The day it becomes a reality, India can hope to cut its oil import bill. The distribution and generation of biofuel could even be an engine to create jobs. ◆

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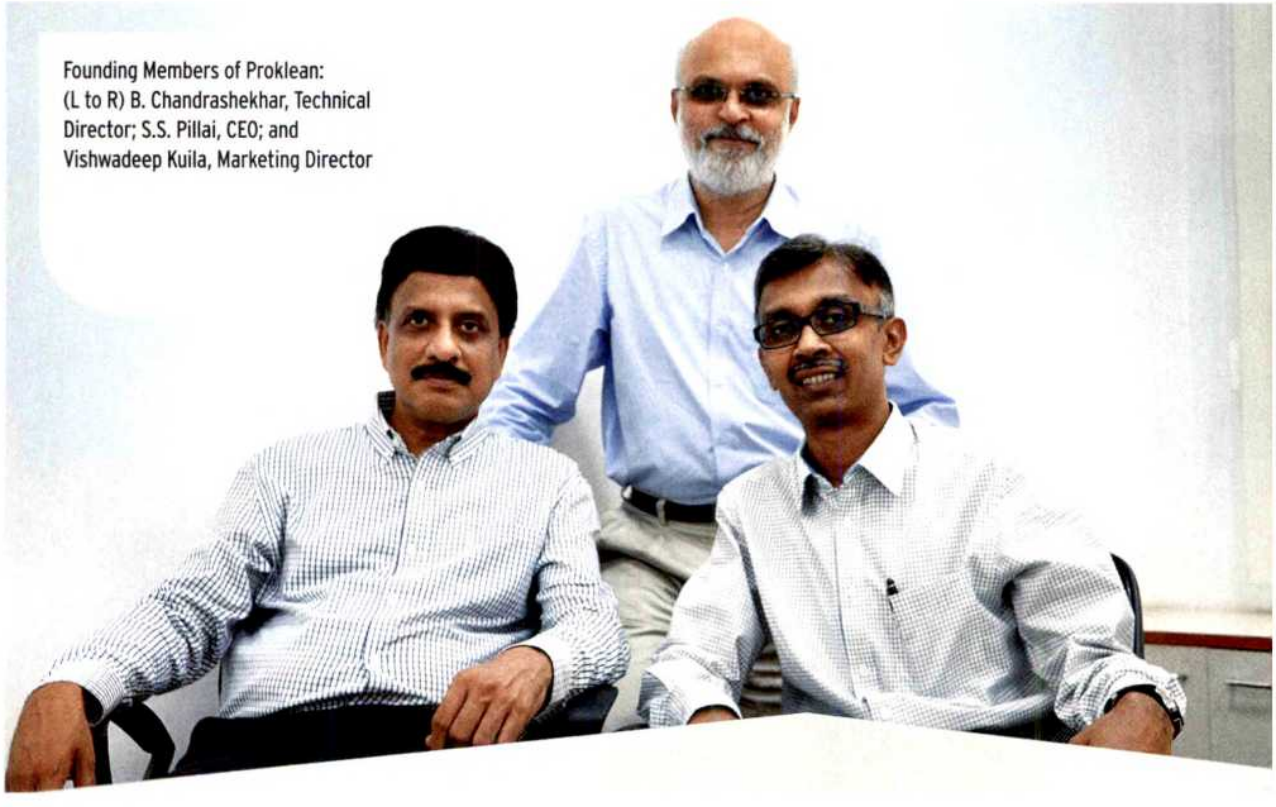
Every Drop Counts

Young companies are experimenting with innovative technologies to address the perilous state of water resources, globally. By TASLIMA KHAN



Founding Members of Proklean: (L to R) B. Chandrashekhar, Technical Director; S.S. Pillai, CEO; and Vishwadeep Kuila, Marketing Director

Depleting groundwater levels and surging demand is aggravating a global water crisis. And, India is among the worst hit as it tries to quench the thirst of an aspiring economy – rising demand from a burgeoning population and over-exploitation by farms, businesses and cities. India's per capita water consumption at 297.3 cubic metre is more than the world average of 287.3 cubic metre. What's worse is that by 2025, per capita availability of water is likely to slip below the critical mark of 1,000 cubic metre. Amid the doom and gloom, however, a handful of young companies is making waves in water innovation, the rippling effects of which are being felt across continents. *Business Today* features two start-ups that could play an important part in changing the course of the perilous state of water resources. While the Netherlands-based Dutch

Rainmaker is capturing fresh water droplets through wind turbines, Proklean Technologies, which operates out of Chennai, is bringing about a revolution by replacing water-polluting toxins with biodegradable solutions.

Out of thin Air

Groundwater does not recycle rapidly. According to a report – World Water Balance, 1978 – the average time of recharging aquifers containing groundwater is 1,400 years. And, considering that fresh water is just 3 per cent of the earth's reservoirs, depleting levels is a scary thought, and a reality. So, instead of digging deep down in the rocky terrain, Rainmaker let its innovative designs take air.

The Eureka moment for Joost Oosterling, founder and Chief Financial Officer of the company, however, were the words of his father, who was a wind energy projects veteran. "Wind energy has been used for pumping water and grinding seeds, but modern wind turbines can be used for other things, too." Soon, the young man, who had earned his Masters degree in Economics, stitched up a team of experts, who went on to help him design a wind turbine that would capture water molecules from air. That's not all. The company has also designed a system to desalinate ocean water. Most importantly, the solutions are not only cost-competitive, but cost-effective to a great extent.

Above all, the air-to-water system works across geographies with varying temperatures (from upwards of 15 degrees Celsius) having wind speeds of 3-18 metres per second. "Wind and temperature are the main variables. Even with low humidity, at a higher temperature there is more water content in air, which translates into higher water production," says Oosterling. The wind turbine drives air through a heat pump or refrigerator, condensing the air into droplets and storing it in a tank. It produces up to 7,500 litres per day depending on climatic conditions.

The small-scale wind mill system designed by Rainmaker to desalinate ocean water works at temperatures above zero degree Celsius and produces 100,000 litres of fresh water a day. The system costs approximately $500,000, a fraction of the investment required for large-scale desalination plants, and can run for 20 years with minimum maintenance. "The system can be deployed at the back of a truck and can be shipped in for emergency water supply during military operations, war conditions, drought situations, etc.," says Oosterling.

Proklean's probiotic chemicals can replace chemicals such as surfactants used in textile processing. It is a $2-billion industry worldwide

Though business is trickling in for Rainmaker, the pilots have grabbed eye balls from Kuwait and the Netherlands to Egypt and the US. "It is cost-competitive but not super cheap," says Nityen Ranjan Lal, Managing Director at the Netherlands-based clean technology venture firm Icos Capital, which has invested in the start-up. Lal says that efforts are also on to introduce the technology in India. "We have had discussions with some corporations and IFC in India but have not been able to arrive at an agreement yet."

Flush Out the Toxin

On April 29, 2015, heaps of toxic foam rose from three lakes in Bangalore to spill over the banks, and on to the motorways. On May 16, the Bellandur Lake was up in flames. It was, however, not the water of the lake, but rather the sludge of effluents, the oil and phosphorus on its surface, that caught fire. It was an awesome sight from a distance, but a dreaded one for the residents.

And, it's certainly not an isolated incident. Crores of rupees have been spent on cleaning the country's rivers and lakes of the toxic chemical deposits from industrial waste, and every year more funds are being allocated. All that money, however, has gone down the drain and into the depths of the muddied waters. Experts say it would require over a decade of continued efforts to clean the country's water bodies. But, what if we could identify the source of the menace and plug it before it reaches our fresh water reservoirs? That was exactly the thought behind the initiative of a young company from Chennai.

Proklean is attempting to use probiotics, which can 'eat

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up' pollutants, to replace toxic chemicals used by polluting industries. The company, which was founded in March 2012 by S.S. Pillai, former CEO of US-based SCD Probiotics, IIM Ahmedabad graduate B. Chandrasekhar and Vishwadeep Kuila, former CEO of Oriental Cuisines, uses SCD Probiotics's products to replace harmful chemicals used in industrial production.

Proklean is focusing on the textile and leather manufacturing units – the ones mostly responsible for water pollution – and has developed biodegradable liquids that work equally well as the chemicals used traditionally in the leather industry to process hides or degrease raw leather. "Our products not only replace these chemicals, but perform better as they are zero-foaming products, reduce the requirement of water for washing and also complete the process faster, saving 20 per cent of the time required," says Vishwadeep Kuila, Marketing Director, Proklean. Similarly, for the textile industry, the company's probiotic chemicals can replace 'surfactants', or industrial detergents, used for removing excess dyes and cleaning the fibre before dying. The products are fast becoming popular across textile and leather manufacturing hubs in Maharashtra, Gujarat and Tamil Nadu. Says Amber Maheshwari, Vice President, Infuse Ven-tures, a cleantech venture fund that has invested in Proklean: "The application of their proprietary technology can have massive applications across other industries as well."

Dutch Rainmaker's air-to-water wind turbine system

The market for Proklean is huge. The global market for surfactants, for example, is a $2 billion industry worldwide, and ₹2,500 crore in India. The market for probiotic chemicals used in the leather processing industry in India is at ₹500 crore to ₹600 crore. Proklean also exports to the Philippines, Bangladesh, Ethiopia and South Africa, and is planning to expand to more countries.

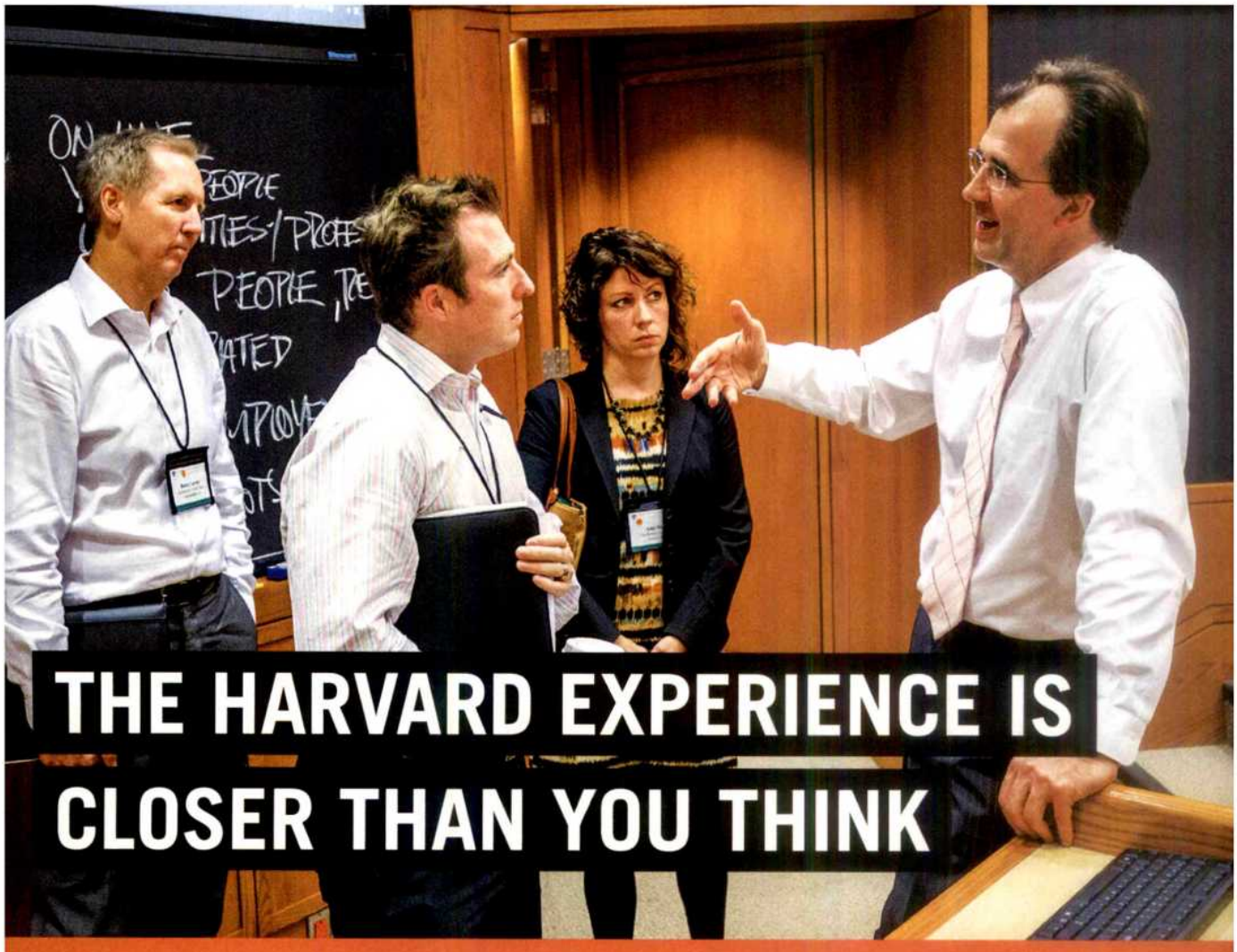
In 2012, Proklean had raised ₹2.5 crore from Chennai Angels and opted for a second round of funding in June 2015, of ₹3.5 crore from Infuse Ventures, run by the Centre for Innovation Incubation and Entrepreneurship, IIM Ahmedabad. The company's revenues for 2014/15 stood at ₹4.5 crore and it plans to touch the ₹40-crore to ₹50-crore-mark in the next five years. It is also working on capacity expansion. The major challenge for the start-up, however, is to market the products well. "It is important for the company to prove that its products are working. It's a gradual shift. It will take some time," says Maheshwari. ◆

@KhanTaslima

CLEAN AIR

New Jersey-based Liquid Light has developed a proprietary technology that converts CO2, or carbon dioxide, into a range of commercially applicable multi-carbon chemicals. The conversion process primarily uses carbon dioxide as the base of its chemical synthesis process, along with other chemicals that are waste products of other industrial processes. The core beneficiaries of this technology are companies that can monetise their CO2 waste and, hence, reduce their carbon footprint. The company's first process is for the production of mono-ethylene glycol (MEG), which is used in the production of everyday products such as polyethylene terephthalate, or PET-based, plastic bottles. The global market for MEG is estimated at $27 billion. A dozen clean technology focused investors, including Chrysalix Energy Venture Capital and Sustainable Conversion Ventures, have placed their bets on Liquid Light's patented technology, pumping in more than $15 million in funding. Among others, the company is co-founded by Emily Cole who also serves as Chief Science Officer at the start-up.

Several other innovators are also working in the area of converting carbon dioxide into usable chemicals. For instance, California-based Newlight Technologies uses micro-organisms to pull carbon out of methane and greenhouse gases, and converts it into cost-effective AirCarbon plastics. These plastics can be used for making furniture, bags, caps, cell phone cases or used for carbon-neutral packaging. The company has raised around $18.8 million in funding.



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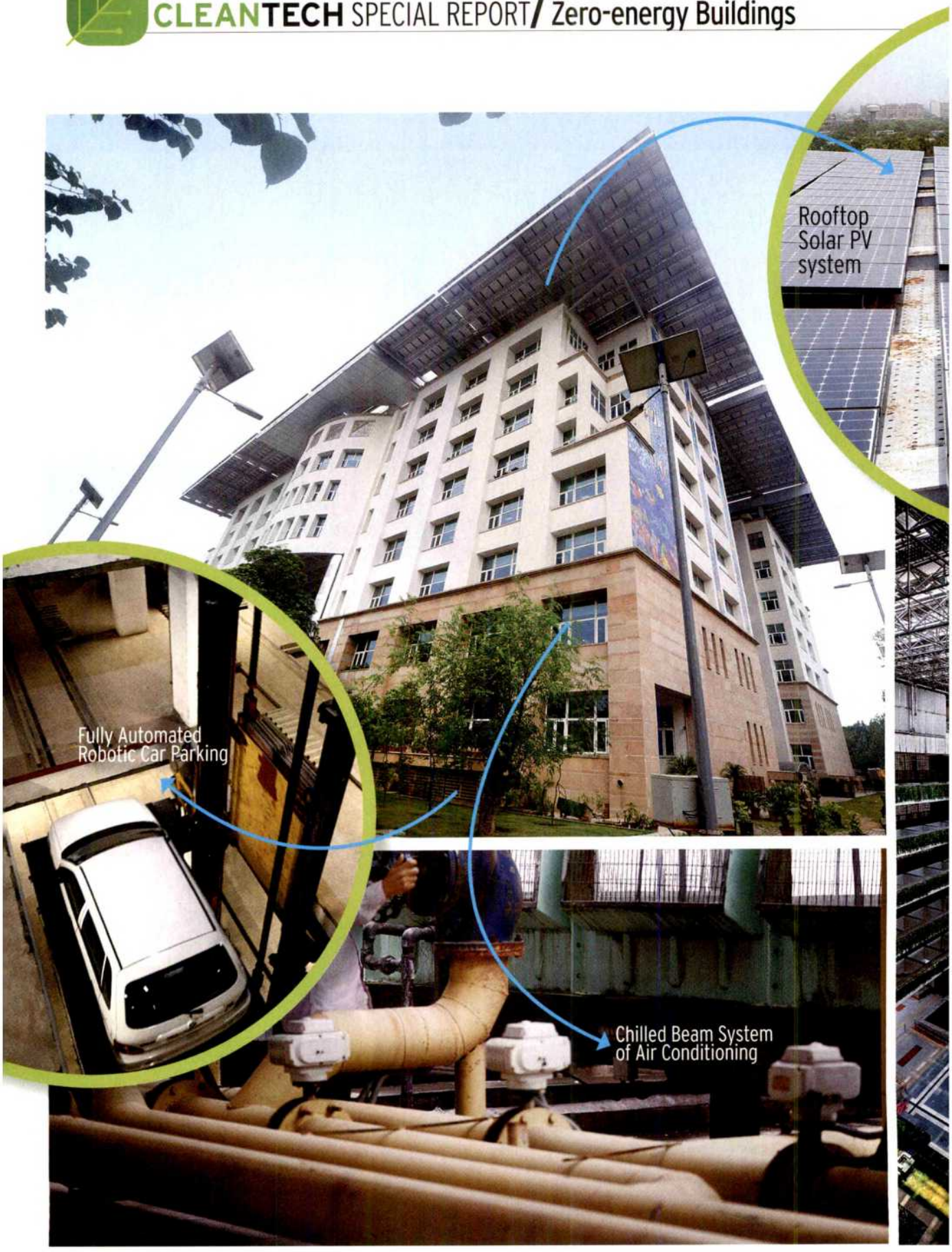
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The lobby. The building is designed to receive ample daylight

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Zero-energy Buildings

A sneak peek into India's first zero-energy building.

By SARIKA MALHOTRA

Government buildings are supposed to be dull and uninspiring, have high energy requirements and are, consequently, polluting. But Indira Paryavaran Bhawan, the building in New Delhi that houses the office of the Ministry of Environment, Forests and Climate Change, is different. Built at a cost of ₹209 crore, it is India's first building certified by GRIHA for Exemplary Demonstration of Renewable Technology. It is also hailed as India's first zero-energy building. What's that? A zero-energy building harvests energy on site to meet its energy demand. In other words, a building whose annual energy consumption is equal to the renewable energy it generates on site. It also uses much less energy than conventional buildings. Typically, technologies such as solar cells, wind turbines, solar thermal collectors connected to thermal storage equipment are used to harvest energy.

CONSERVATION STATS:

ANNUAL CONSUMPTION	CONVENTIONAL DESIGN	ENERGY EFFICIENT / DESIGN IN THE PROJECT	SAVINGS IN %
Electricity	22 lakh kWh	14 lakh kWh	40
Water	20,000 KL	9,000 KL	55

RACHIT GOSWAMI

INTERVIEW: ARUN SHENOY
Co-founder and Executive Director/ GIBSS

"Net zero energy is easy to achieve and commercially viable if done right"

How can buildings attain optimum zero energy levels?

Buildings can achieve zero energy levels in two steps. One, reduce demand through commercially viable energy efficiency technologies such as geothermal air conditioning and LED lighting. And two, harvest energy on site to meet the already reduced demand by using technologies such as solar cells, wind turbines, and solar thermal collectors connected to thermal storage equipment.

What will be the difference in investments in energy of a conventional building and a zero-energy building?

Pursuit of a zero-energy building without reducing demand first can be disastrous, resulting in very high investment costs, poor payback, significant usage of open space and, most importantly, disillusionment towards zero energy concepts. It's important to create a roadmap that in its first phase focuses on reducing demand to the highest extent possible with technologies and strategies that are commercially viable.

CONVENTIONAL BUILDING DEMAND (Units in kWh)	
Traditional Air Cooled Chillers	**65**
Electric Boilers	**10**
CFL/ Halogen Lighting	**15**
Other Equipment	**10**
Total Units	**100**

ENERGY-EFFICIENT BUILDING DEMAND (Units in kWh)	
Geothermal Air conditioning	**25**
Hot water Co-generation systems	**04**
LED Lighting	**06**
Other Equipment	**10**
Total Units	**45**

To understand this concept, imagine a building consuming 100 units of energy a year. Let's say 65 units is consumed by the air conditioning system, 10 units by the boilers to generate hot water, 15 units by lighting and 10 units by other equipment. The building will need to harvest 100 units of energy through supply-side solutions and make capital investment for this requirement. On the other hand, demand can be reduced through ultra-efficient commercially viable technologies such as geothermal air conditioning. In the above scenario, the building has implemented demand-side technologies first, thereby reducing demand from 100 to 45 units. Now, the building will need to harvest only 45 units of energy through supply-side solutions and invest only for this amount.

How can the concept of zero-energy buildings catch up in India?

A lot of awareness needs to be created on the process and the path to achieve zero energy to ensure that building owners take up demand-side initiatives before introducing supply-side solutions. Since air conditioning accounts for more than 60 per cent of the energy consumption in most building verticals, commercially viable solutions with payback of less than two years such as geothermal air conditioning must be made a mandate to meet the base load demand in all commercial and industrial buildings. Other supply-side technologies have to be made commercially viable by manufacturers and market players rather than through government subsidies and accelerated depreciation benefits. ◆

As told to Sarika Malhotra

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The Censure of Sensors

How the world is riding on a wave of big data to save resources.

By CHITRA NARAYANAN

Apart from millions of pilgrims, the ongoing Kumbh Mela at Nashik has attracted some unusual visitors – an army of techies and data scientists. In fact, long before the mega fair began on the banks of the Godavari, a team of researchers from Massachusetts Institute of Technology (MIT) travelled down to Nashik to organise a Kumbhathon, an open sandbox initiative – or a testing environment – to see how technology could be used to help manage issues thrown up by large congregations.

Among other experiments, the Kumbhathon saw a group of researchers installing sensors that would "smell the air, taste moisture, and feel the sting of pollution", as digital nomad and futurist Ulrike Reinhard colourfully describes in her blog. As mil-

See interview with Anant Maheshwari at businesstoday.in/honeywell-maheshwari

SHEKHAR GHOSH

lions of people descended on the city, the sensors got to work, picking up data – real time – on temperature, humidity, dust particles, noise, oxygen and carbon dioxide levels, etc. The information will be disseminated on the web using an open data platform. This allows anyone to visualise – using a map view – the environmental changes happening in the city during the mega fair.

Data scientist and cofounder of Juxt Smart Mandate, Mrutyunjay Mishra, who is involved in this project, says open data can have a big impact in interventions in environmental protection. For instance, just out of Nashik, by October, they hope to have enough data to show how a city's environment changes when population bursts happen. "In Nashik, during the Kumbh, the city's population will shoot up 20X times, going from 1.5 million to 30 mil-

INTERVIEW/ ANANT MAHESHWARI
President, Honeywell India

"There are enough examples in India of companies using big data"

How are you using big data and clean technology?

We have worked on a cutting-edge big data platform for one of the refiners in India, where with the help of data, we made the refining operation a lot easier to operate. And we are now bringing it to mobile devices for the ability to operate even a complex operation like a refinery. It helps the refinery become more efficient and easier to manage.

Today, if you look at refining operations in India, a lot of operators have been there for many years. But as they create operations of the future, they need to transition the refining experience into codified areas so as to take better decisions on how to run it. That's where big data comes in.

Other simpler areas are examples like air purifiers in homes. Recently, we launched air purifiers in China, where you can see the general quality of the air in the city, with the help of data picked up from public sources, social media, and then measure it against the air purifier at your home. This tells you the change the gadget is making.

What about in offices?

We have worked with hotels, airports and hospitals in India, where they are leveraging these control rooms after having set up smart buildings that monitor how green they are, how productive and safe they are. There are enough examples within India of companies using big data.

What about utilities?

In India, smart grids is still a new phenomenon. There is a very structural reason for that. In developed markets, utilities are end to end. They generate, transmit and distribute to the end-user. So they can monitor the usage and figure out if they need to increase generation. In India, it is all segmented. The generator is different, the transmission is different, and the distributor is different. So an end-to-end ecosystem does not exist. It's difficult for the information to flow. There are smart grid pilots happening in India. But they are still in trial stage and there are structural challenges.

We acquired a technology a few years ago called Akuacom, which through thermostats at homes or companies helps utilities track usage in that facility and transmit it back, so that utilities can continuously advise on increasing or reducing the energy supply and manage costs better. ◆

lion. What happens to the environment during this time? We will have some baseline data now," he says. While Nashik is a test case, going forward Mishra says all kinds of crowdsourced data that can be read by anyone on a mobile app would become available. For instance, the impact of radiation in areas hosting nuclear activities can be measured and shared.

Already, under the government's Open Government Data (OGD) platform, reams of data on air quality and water quality are helping civic agencies and corporations draw up action plans. But while the government uses expensive measuring devices, Mishra says the world is moving to capture data in a cheaper, scalable and simpler way. "Our devices are cheaper, the designs are interesting, and participation is by the people," he says.

Big data is helping governments, global firms, and municipal bodies address resource challenges and drive the use of cleantech

Welcome to the world of big data, which is helping governments, global corporations and municipal bodies address resource challenges and drive the use of clean technologies. Companies like United Technologies, ABB, Honeywell and GE are all riding the wave of big data to make buildings, refineries, plants, aircraft and utilities smarter and greener.

Take, for instance, the way Honeywell's software Akuacom helps energy providers improve grid reliability through automated load management. It also provides for two-way communication between a utility and homes or factories, allowing the utilities to send messages directly to cut energy use when needed. In a pilot, Tata Power Delhi Distribution Limited (TPDDL) has implemented the technology to link over 160 buildings in its distribution network, helping it manage power during periods of peak consumption.

Or take the way United Technologies Corporation (UTC) allows buildings to use big data flowing from its air-conditioning, security and elevator systems to help manage energy flow. "When you get into a building where the cameras, elevator systems and access cards are all throwing information, you can pool the data together," describes Gaurang Pandya, President, UTC Building and Industrial Systems (India), adding that the more information the building generates, the more efficiently it can be run.

All kinds of data sets are today converging and influencing the way buildings and facilities are managed. For instance, behavioural data gleaned from energy usage of individuals helps utilities. As the Internet of Things (IoT) becomes more prevalent and more and more devices get connected and talk to each other, expect a host of energy savings to accrue. Already in the western world, millions of smart thermostats have been installed in homes and facilities by companies like Opower, from where data flows into databases and are used to drive energy efficiencies.

According to Anant Maheshwari, President, Honeywell India, we are seeing clean technology applications of big data in refineries, high investment capex industries, power utilities, aerospace, and even in hospitals, hotels and companies with large footprints. "In refineries, we are seeing data getting transferred to central warehouses where experts monitor and make interventions," he says. "The central theme in the use of big data is the maintenance – how you reduce downtime and increase efficiency."

The next frontier for big data is in the mobile and wearable space, says Maheshwari. "If you are working on a construction or industrial site, it is important for workers to be safe," he says. "We are now seeing gloves, jackets and hats that are smart and have a sensing ability to communicate. There is definite application of wearable technology."

Such wearable technology in India is just about getting discussed. Globally, it is becoming quite significant, he says. It is also a pricing issue now. As costs come down, these technologies will be seen more and more around us. ◆

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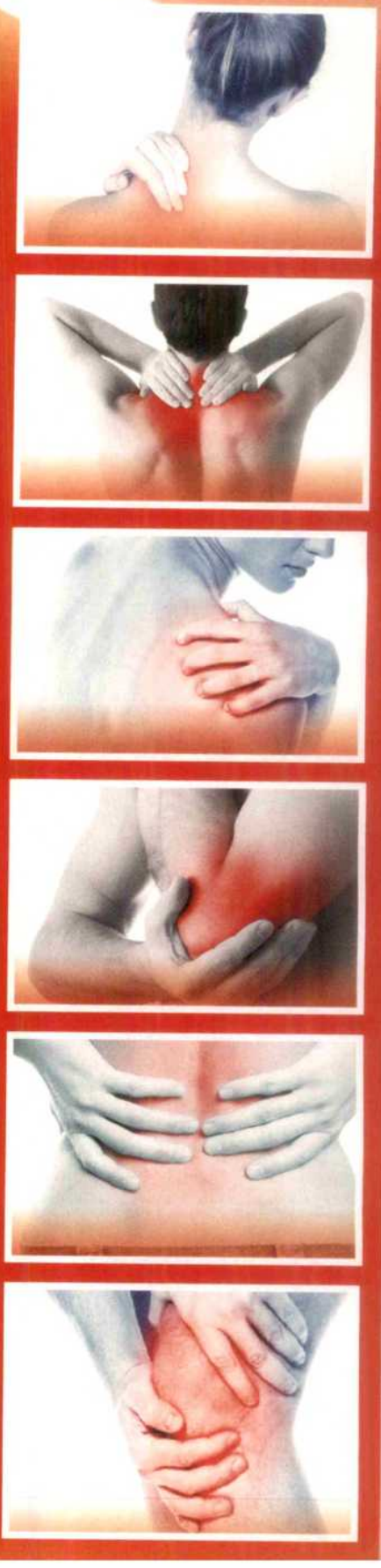

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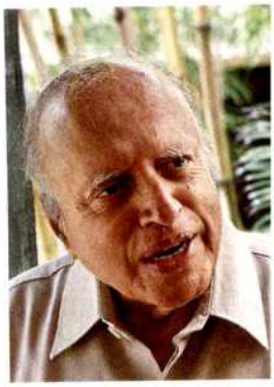
Marching Towards Sustainable Agriculture



The development and application of environmentally benign clean technologies is an area where business houses can help through their CSR programmes

The Green Revolution of the1960s and 70s allowed us to achieve a balance between human numbers and the human capacity to produce food. The Green Revolution technologies involved the use of external inputs such as hybrid seeds, mineral fertilisers and chemical pesticides. It, however, also generated environmental problems like soil erosion and degradation, groundwater depletion and salinisation, and loss of biodiversity. Climate change is further compounding farmers' difficulties. An understanding of the need for environmentally clean technologies began in the 1960s with the publication of the book *Silent Spring* by Rachel Carson. Indeed, Nobel Laureate Albert Schweitzer then wrote:"Man has lost the capacity to foresee and to forestall. He will end by destroying the earth."

In my lecture at the Science Congress in Varanasi on January 4, 1968, (before the term Green Revolution was coined) I also made the following observations: "Intensive cultivation of land without conservation of soil fertility and soil structure would lead ultimately to the springing up of deserts. Irrigation without arrangements for drainage would result in soils getting alkaline or saline. Indiscriminate use of pesticides, fungicides and herbicides could cause adverse changes in biological balance as well as lead to an increase in the incidence of cancer and other diseases, through the toxic residues present in the grains or other edible parts. Unscientific tapping of underground water would lead to the rapid exhaustion of this wonderful capital resource left to us through ages of natural farming. The rapid replacement of numerous locally adapted varieties with one or two high-yielding strains in large contiguous areas would result in the spread of serious diseases capable of wiping out entire crops... Therefore, the initiation of exploitative agriculture without a proper understanding of the various consequences of the changes introduced into traditional agriculture and without first building up a proper scientific and training base to sustain it, may only lead us into an era of agricultural disaster in the long run."

My lecture aroused considerable interest in the development of clean technologies for agriculture. I coined the term "evergreen revolution" to indicate that what we need is increase in productivity in perpetuity. Most of our farms are small in size. What the small farmers need is more marketable surplus and climate resilient farming methodologies.

Water is the key input for agriculture. The choice of crops by farmers as well as nature depends largely on the extent of water availability. Seawater constitutes 97 per cent of the world's water resource. Nearly 25 per cent of

M.S. Swaminathan is founder and Chairman of M.S. Swaminathan Research Foundation

the global population lives near the coast. Therefore, it is essential that we develop technologies for biosaline agriculture. M.S. Swaminathan Research Foundation (MSSRF) has developed such technologies based on sylvi-aquaculture systems. There are a wide range of economically viable halophytes, such as Salicornia, which can grow in coastal areas. Sea water farming for coastal area prosperity is an idea whose time has come. Therefore, MSSRF has established a Genetic Garden of Halophytes at Vedaranyam.

Among the other sources of water, groundwater is becoming increasingly important. Surface water resources such as tanks, lakes, reservoirs, and rivers are equally important from the point of view of clean technology development and adoption. Groundwater in eastern India contains arsenic and this can be removed by bioremediation techniques. Drip and sprinkler irrigation is another notable clean technology. Protected agriculture, particularly horticulture, provides an opportunity for linking drip irrigation with organic farming. Organic agriculture helps to improve soil health from the point of view of the physics, biology and chemistry of the soils. The year 2015 has been designated as the International Year of the Soil.

Our government has announced that it will provide Soil Health Cards to farmers. This will help in ensuring sustainable advances in farm production and productivity. The Soil Health Card will become even more useful to farmers if the card is tailored to the needs of a specific cropping system. For example, we are short of pulses like pigeon pea, chickpea, moong, urad, lentil, etc. The price of pulses has gone up by over 60 per cent over the last year. As a consequence, protein hunger is increasing. Indeed, 2016 is the International Year of Pulses. Most of the pulses are native to India. They are grown without irrigation and under low soil fertility conditions. This is why the average yields of most pulse crops are about 500 kg per hectare. Crops, like arhar (pigeon pea), grown in Australia from seeds obtained from India, yield over 4 tonnes per hectare. The import of pulses is increasing and now exceeds 3.6 million tonnes.

Pulse crops require more phosphorus in the soil. Therefore, the Soil Health Cards given to those cultivating pulses should be designed to address the specific nutritional needs of these crops. The Soil Health Monitoring and Advisory Service, as I have been recommending, could be equipped to render specific advice to pulse crop cultivators on the nutrients needed based on soil testing. In other words, there has to be a cropping or farming system-based Soil Health Cards – it could help the farmer to enhance the productivity of the cropping/farming system.

The development and application of environmentally benign clean technologies is an area where major industry and business houses can help through their CSR programmes. One of the world's leading irrigation technology companies is Jain Irrigation of India. Despite having such fine institutions water use efficiency is poor. This is why the Prime Minister has been advocating the More Crop per Drop approach to water use. For rice, which requires more water than other crops, approaches like the System of Rice Intensification (SRI) help to reduce irrigation water consumption substantially.

We should pay equal attention to the quality of water. This is where industry and irrigation departments can work together. Some years ago, I visited Fuji Films in Tokyo. The manager took me around and finally he ended our visit at a few fish ponds. The fish appeared extremely active and happy. I asked the manager what these ponds were for and he said that all the treated effluents from the factory are used for aquaculture. He added that "the happiness of the fish is an index of the cleanliness of water". We need this kind of approach in CSR programmes so that clean technologies for clean agriculture can be launched.

Despite the priority accorded to irrigation from the early days of our independence, only 40 per cent of the cultivated area has assured irrigation. Rainfed areas grow important crops like pulses, oilseeds and millets. Semi-arid horticulture – like the cultivation of pomegranates – is also becoming popular. Therefore we should make rainwater harvesting mandatory both in farms and in homes. Areas like Sorah (formerly known as Chirapunjee) have heavy rainfall almost reaching 15,000 millimetres per year, but still suffer from water shortage during winter and spring months. This position, however, is changing as a result of the movement to establish *Jal Kunds* where rainwater harvesting and storage can be done efficiently.

In Maharashtra, where large areas are rainfed and also prone to farmers' suicides, water harvesting and crop-saving irrigation are exceedingly important. It insulates the farmer from total crop failure. Much of the water harvesting has to be community centred. Equity in water sharing is essential for cooperation in saving water. For this purpose, it will be useful to promote *pani panchayats* like has been done in parts of Maharashtra, so that the rainwater which is harvested and saved is used in an efficient and equitable manner.

Another area that needs attention is water for animal husbandry and fisheries. There are again clean technologies that can provide nutritious animal feed. Any waste cellulosic material can be enriched and made a perfect feed for animals. Horticulture lends itself to drip irrigation. We should train a man and woman at every panchayat to serve as water masters. They can guide and oversee the efficient management of the available water resources in the panchayat /local bodies. This is where technical guidance from industrial houses will be useful. .

The future of our agriculture will depend on the steps we take to ensure sustainable water security. It is, therefore, hoped that integrated water conservation and management, along with sustainable usage, will receive high priority for support under CSR. ◆

An **Afterthought** on the **Aftermarket**

Vehicle manufacturers are struggling to recover from the recession that had hit the auto industry recently. With sale numbers inching slowly in the positive direction, the Original Equipment Manufacturers demand for auto parts have also improved marginally. But some of the auto part businesses have learned the hard way that tying their fate completely to that of the giant OEMs may not be prudent. Many have huge capacities that they had created to cater to OEM demand, still going idle.

- Knowledge series from Vector Consulting Group
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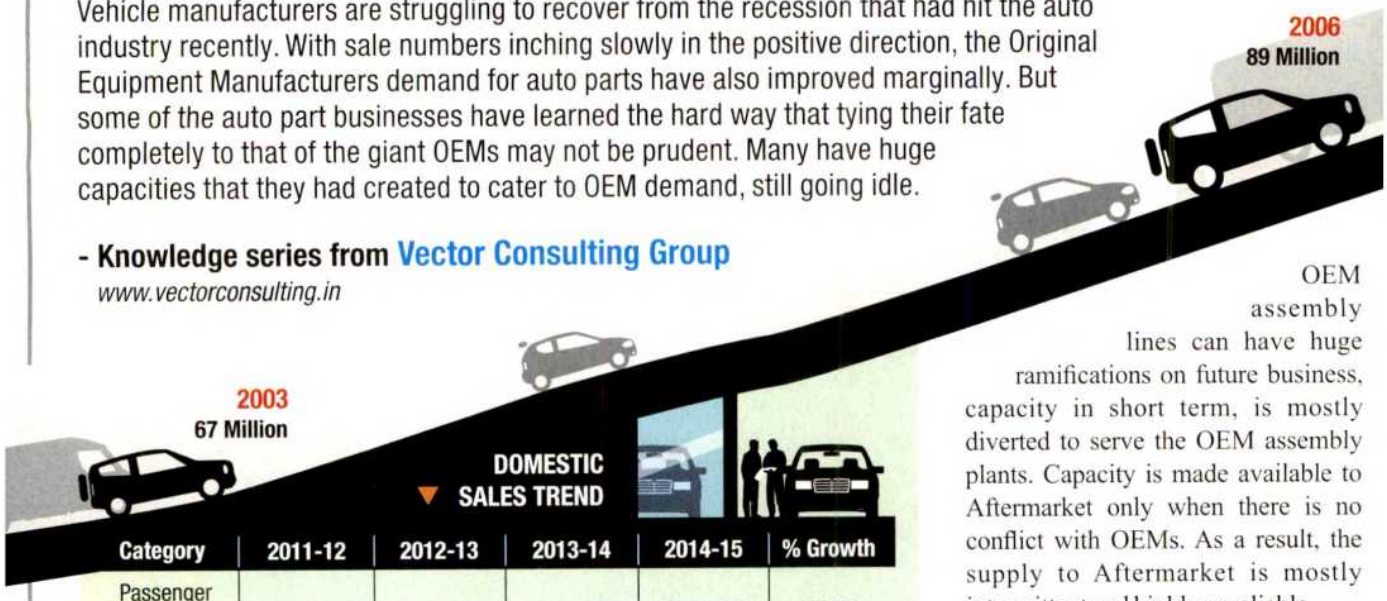


Category	2011-12	2012-13	2013-14	2014-15	% Growth
Passenger Vehicles	26,29,839	26,65,015	25,03,509	26,01,111	0.04%
Commercial Vehicles	8,09,499	7,93,211	6,32,851	6,14,961	-0.3%
Three Wheelers	5,13,281	5,38,290	4,80,085	5,31,927	0.12%
Two Wheelers	1,34,09,150	1,37,97,185	1,48,06,778	1,60,04,581	0.08%
Grand Total	1,73,61,769	1,77,93,701	1,84,23,223	1,97,52,580	0.07%

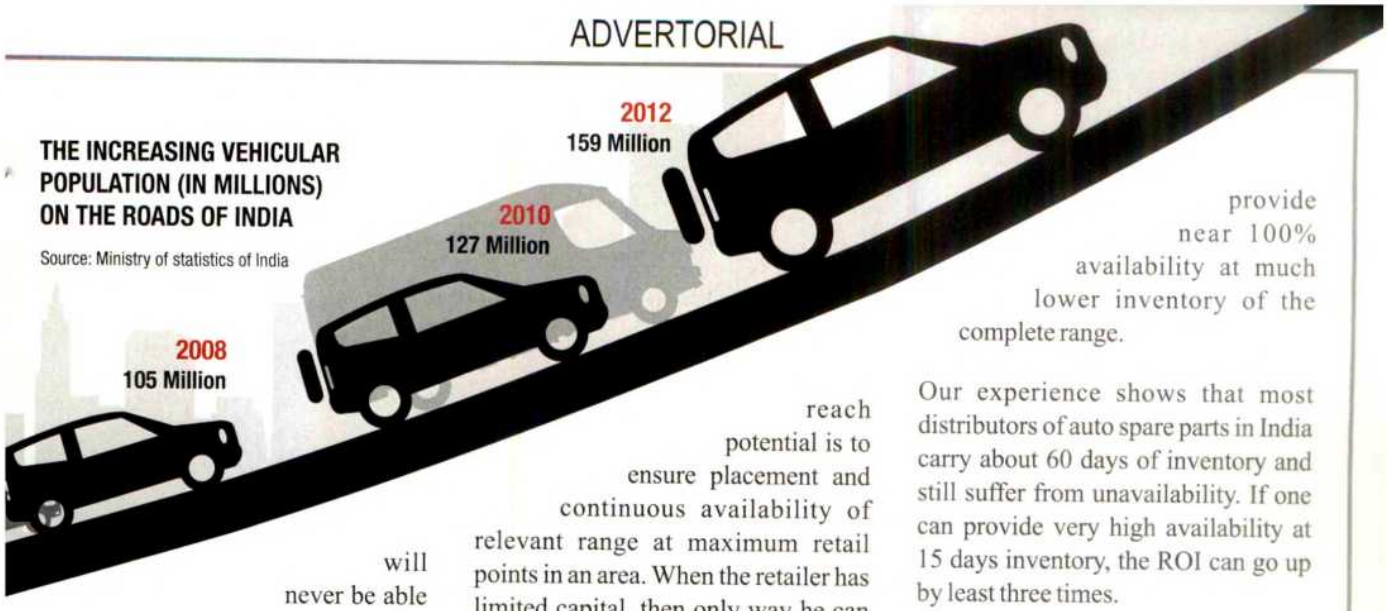
Source: SIAM

During this period when the OEM offtake slumped, the demand in the other important segment – the Aftermarket- increased more than ever before. The Aftermarket, where demand is triggered primarily through replacements, because of wear & tear and accidents is usually "recession proof" as number of vehicles in use continuously increase year on year.

Most "first-fit" component vendors have the rights to sell their products in Aftermarket. The Aftermarket is also financially very lucrative – the average gross contributions of the same parts are higher than what component vendors get from the OEMs. However, over the years of rapid growth, the component manufacturers have mostly neglected the segment. The reason is not strategic but more operational in nature. Component manufacturing usually involves frequent expediting by OEMs due to frequent change of schedules on a daily basis. Since missing supplies to OEM assembly lines can have huge ramifications on future business, capacity in short term, is mostly diverted to serve the OEM assembly plants. Capacity is made available to Aftermarket only when there is no conflict with OEMs. As a result, the supply to Aftermarket is mostly intermittent and highly unreliable.

When there is underutilization of capacity due to lower OEM demand, Aftermarket looks to be the savior in the short term. The typical approach to deal with this opportunity is appointment of new distributors and aggressive time-bound schemes for the channel partners. These "push" steps usually lead to sudden growth of sales to the distributors for a month or two creating a sense of having found a silver bullet. However, very soon, as the customer pick up does not increase at same pace, the orders from distributors decrease below even normal levels (to correct for excess inventory). These knee-jerk actions do nothing to increase sales in the short term or in the long term.

The Auto OEM industry will always go through a business cycle every few years. If the component vendors continue the short term opportunistic outlook towards Aftermarket, they



will never be able to use this lucrative segment to buffer for the troughs in the business cycles.

The key question staring at these component companies is: How can they increase Aftermarket sales, sustainably and significantly in the short term as well as the long term?

One can start to answer by understanding the dynamic of sales at the retail point. For most spare parts the customer tolerance time (willingness to wait) is nearly zero. Hence if the item is available at most of the retailers in an area, then the demand in that area can be exploited significantly. On the other hand, if the brand is frequently unavailable, the retailer and customer lose interest in it. This results in reduced ordering by retailers. Hence even if material is available at the distributor, demand by retailers can be considerably low.

Companies that supply to the Aftermarket intermittently (as and when capacity is available) usually supply through a few large wholesalers in the country. Wholesalers buy only fast movers in large batches and then sell across the country to a few retail points without any territory allegiance. This way of operations does not ensure reach and range penetration of the brand in the territory. It is not surprising to find retailers not aware of the full range of such companies.

The way to capture the range and reach potential is to ensure placement and continuous availability of relevant range at maximum retail points in an area. When the retailer has limited capital, then only way he can hold a wider range is by having a very low inventory of each item. This requires a distribution capability to service all the mapped retailers in the area with small orders per SKU at a very high frequency (every week).

Critical conditions to ensure this availability at the retail point are:

- Daily high availability of complete range at the distributor: to ensure continuous supply and prevent hoarding tendencies by retailers.
- Territory limitation and demarcation for each distributor: to ensure deeper penetration of reach with prevention of cross-territory dumping.
- Dedicated distributor sales representative: to execute a weekly beat plan for order collection and a reliable service frequency.

This model requires significant investment of resources and commitment from the distributor. Unless he has a significant win, he cannot be expected to put in this disciplined effort.

The Win for the Distributer

Every distributor strives to achieve higher ROI. Providing him an ROI, which is way beyond his expectation, can motivate him to invest resources for the required procedures of frequent retail servicing. Enhancing ROI by increasing his margins is not a viable option for any company. So the only option is to provide near 100% availability at much lower inventory of the complete range.

Our experience shows that most distributors of auto spare parts in India carry about 60 days of inventory and still suffer from unavailability. If one can provide very high availability at 15 days inventory, the ROI can go up by least three times.

With such fantastic ROI, every year, the distributor can be expected to follow all the procedures of retail servicing - a Win - Win for both parties.

Building the supply chain for delivering high ROI

To enable such lower inventory levels, the lead times of supply to distributer have to be consistent and less than 10 days (15 day stock will be enough to prevent stock outs if lead time is around 10 days). Such lead times cannot be achieved by producing to order from distributors. Having a warehouse with consistent availability and replenishing frequently from it to the distributors based on consumption, assists in ensuring high availability at lower inventory at distributors. This is a change from the currently predominant practice of the distributor forecasting (or sales man pushing high volumes) for a long period.

If one wants to move inventory only as per consumption, it is imperative that the component manufacturer does not have surplus and stock outs. So production systems also need to be aligned to prevent stock outs and surpluses.

The current typical approach in production for most companies is the monthly planning system, which is driven by a forecast for the OEM as well as the forecast for the Aftermarket. The planning starts

about end of previous month (about 10 days before) after netting for inventory and the same is converted to materials requirement for vendors. This way of planning actually makes the system's reaction time to be about 40 days. So as the month progresses, the ability of the entire system to accommodate changes is limited – resultant effect is excess inventory of items produced which is not required immediately while shortage of other items.

This model in production cannot ensure high consistent availability to the warehouses. The only way out is that production moves away from made to forecast to replenish to buffer in warehouses. In most auto component manufacturing systems, if the raw material is available in full set, the actual production lead time is a few days (1 to 3 days). With such low lead times a buffer of double the production lead time will allow enough flexibility to the plant to react to any fluctuations in demand. This allows the plant to plan daily according to daily consumption of the warehouses. With this system the inventory required in the distribution warehouses is also reduced dramatically. The model also solves the conflict between OEM and Aftermarket supply as the production system uses capacity to produce what is needed immediately rather than producing surplus with a delayed off take.

The suggested model is a paradigm shift from "push" to "pull" right from creation of inventory at manufacturing to moving it to distributors and retailer.

AN INTERVIEW WITH NIRANJAN KIRLOSKAR

Managing Director
Fleetguard Filters Pvt. Ltd. Cummins Group

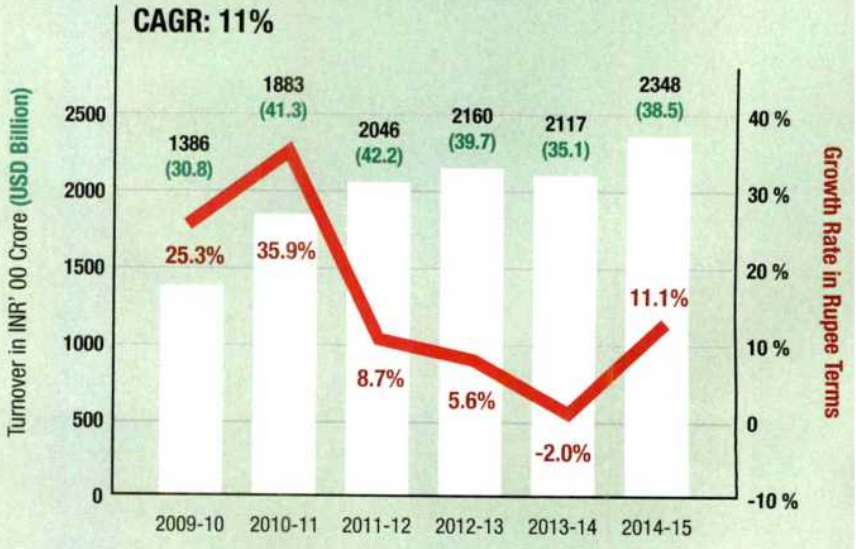
How has your company handled the recent recession that the auto industry went through? How were you affected and what steps are you taking to withstand the impact of such slumps in the future?

When the OEM sales went down our sales to the OEM customers also went down but our Aftermarket distribution business has been and continues to be a significant bulwark for our company. We have increased our sales in the Aftermarket segment over 9 times in the past 7 years. Our market share has grown consistently because of our strength of the distribution business even in times of slowdown. We are now market leaders in some of the key segments in Heavy Duty Filtration.

You are one of the very few companies in India, which has implemented a pure pull system right from manufacturing to distribution and now unto the point of retail. Can you share your experience of making such a dramatic transition?

We are on an exciting journey for about 7 years to make the transition from forecast based push to a pull system using the Theory of Constraints (TOC) philosophy. The paradigm changes were significant in production to move

TURNOVER AUTO COMPONENT INDUSTRY: 2010-2015



Source: ACMA

away from batch production to variety based production, which was assumed to lead to inefficiencies but we have actually generated excess capacity by not producing what is not immediately required. The changes in sales were even more fundamental – we had to move away from a system where we used to push material to distributors at month end, to now a system where goods are invoiced daily as per consumption. This called for changes in the way we measured sales. Sales teams do not have a primary sales target – they have targets for generating real demand in the market and increasing range and reach of our products.

What happened to all your trade schemes, which usually support a push approach?

We overhauled all our trade schemes, which were based on meeting short-term targets. Such schemes created artificial waves of peaks and troughs because of demand pre-ponement and did not help anyone in the chain. We have now stopped all such schemes and shifted the budget to long term loyalty programs with our key customers and influencers – mechanics in our case.

But how could you manage with your competition having aggressive schemes for channel partners? Did you not lose out on sales?

We actually have the best scheme for our channel partners. Due to low inventory, many of our distributors earn an ROI of close to 100%. They have zero stock outs with only 12 days of inventory at the most for each product. In return they work extensively in the market for increasing range and reach. They cover every nook and corner of their territory to cater to every retailer, while continuously expanding the range – that is the win for us. At the retail point, almost every retailer appreciates our system of small stock and frequent supply. They are seeing how this is impacting their business and most of them are realizing that this way of operations is helping them rather than buying in large lots.

What has been the scale of implementation?

We started in 2008, partnering with Vector Consulting Group. We implemented the daily pull based system of Theory of Constraints with all our suppliers, manufacturing plants and distributors. Our sales team is in weekly touch with over 30,000 retailers and 50,000 mechanics. We also manufacture and supply to OEMs based on pull based consumption. We commit 100% availability at a daily level to OEMs.

What has happened to the inventory and working capital requirements?

We operate with finished goods inventory of 11 days, while our distributors enjoy 20 turns. We do not have a month end sales skew. At the same time, our credit policy is very strict in the chain. We take advance payment from our distributors, while they give credit of 15 days to the retailers. It is a win-win model for everyone in the chain.

RESULTS OF 7 YEARS OF THEORY OF CONSTRAINTS (TOC) IMPLEMENTATION

Parameter	Before (2007)	After
No. of SKUs	300	625
Inventory	45 days	11 days
Receivables	40 days	11 days
Availability	Monthly order fulfillment was 80%	99% availability at distributors on a daily basis
No. of distributors	60	184
Area covered by each distributor	No area demarcation	No more than 2-3 districts per distributor
No. of days of stock with Distributor	More than 45 days	12 days
ROI of distributors	About 20%	80% + (Margins kept same as before and trade schemes were discontinued)
No. of retailers covered	5000	30000
No. of mechanics under loyalty program	0	57000
No. of sales officers	26	75
No. of mechanic sales representatives	18	275

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"We're an ethically driven value-based company, not Big Pharma"

In 1971, **Frank Stangenberg-Haverkamp** *was on a fun trip to India as a 23-year-old, driving down all the way from Germany, via Turkey and Pakistan. Since then, he has been a frequent visitor to India, either on business trips or just for plain fun. The Chairman of the Executive Board and Family Board of E. Merck KG was in Mumbai recently to partner the Maharashtra government on spreading awareness about diabetes. In a rare interview, the Merck chief shares his views with* **P.B. Jayakumar** *on the company's plans to focus on cancer research and their recipe for growth. Excerpts:*

Historically, very few privately held big corporations globally have survived beyond the third or fourth generations. What binds the Merck family together generation after generation?

I am from the 11th generation of my family, and we have 239 bloodline family members; 153 are the owners and have voting rights. All of them are descendents of the three sons of my ancestor (Emanuel Merck) who transformed Merck into an industrialised company in 1827.

E. Merck KG is the holding company of all Merck companies and it does not have any operating businesses. In 1995, we decided to bring external shareholders and diluted nearly 30 per cent of the total share capital and the rest (70 per cent) is with the family via the 'general partner' E. Merck KG. The interests and control of the family in running Merck is executed through a Family Board, Board of Partners and an Executive Board.

The Partners' meeting is like the Annual General Body Meeting of listed companies and it discusses the reports of the other bodies. It also elects the members of the Family Board every five years and has the powers to approve or reject changes in ownership structures or key business decisions.

The Family Board, which has 12 members, decides the basic strategic directions for the Merck companies and meets every month, besides communicating with the general partners from time to time on key business decisions. Its members are elected by the General Partners' meeting and are only members of the Merck family.

Then, we have an Executive Board, which manages all operative activities of the Group. The Board of Partners is elected by the Family Board. It is like the Supervisory Board of a stock corporation and decides on issues like the appointment and dismissal of members of the Executive Board of Merck KGaA and monitors and approves major transactions, particularly, major capital investments. Apart from five members of the Family Board, four external business leaders are members of the Board of Partners. For example, if Ratan Tata was a German national, we would have inducted him to our Board of Partners.

> "Just being from the Merck family does not qualify anyone for the top posts"

So you have a complex but interesting family holding structure to control family interests in the company. How do you elect or groom your next generation for the top posts?

Just being from the Merck family does not qualify anyone for those posts. For example, currently my cousin and I are the only members from the family at the top posts of E. Merck KG. After studies, members will have to work outside for other companies till they reach at least a level of chief manager for joining Merck. If they are good, they can come up.

I have four sons and three daughters, but none are working with the company and are pursuing different careers. My uncle was the chairman of Merck for 42 years. I started my career as an investment banker in the UK and was chosen for the Board of Partners only when I was 36 years old. After my uncle's retirement, the family elected me to become the chairman of the Executive Board of Partners in 2004 and the chairman of the Executive Board and Family Board of E. Merck in 2014.

There is confusion among the general public, globally, over the two Merck companies – Germany-based Merck KGaA, and Merck & Co. in the US...

"Our focus is on making cancer drugs and biosimilars. It is also our strength"

We are the original Merck, founded in 1668 in Darmstadt, Germany. In 1887, we started exporting to the US and an office was started in New York and, four years later, started a subsidiary Merck & Co. During the First World War, Merck & Co. was expropriated in 1917. Both the companies were separated and clear rules stipulate the rights to the name and the trademark. Merck Germany holds the global rights to the name and the trademark MERCK, except in North America. There we are represented by the EMD brand, which stands for "Emanuel Merck Darmstadt". Merck Sharp & Dohme is an American company known as MSD outside the US and Canada. It means they have to operate in other countries like in India as MSD.

Coming to your business, despite being the world's oldest chemical and pharmaceutical company, Merck has not grown the way it could have when compared to other companies like Pfizer or GSK or BASF...

It should be seen from the background that we are a German company and an ethically driven value-based company and not Big Pharma. Unlike pharmaceutical companies, our business is spread into three areas, Healthcare (comprising Merck Serono, consumer health and biosimilars), which contributes to over half the revenues; Life Science (Merck Millipore); and Performance Materials (electronic chemicals, liquid crystals and pigments). Having said that, we are now in the process of growing and expanding, we have invested €32 billion in the last eight years alone in acquisitions. The latest was the US-based life science company Sigma-Aldrich for $17 billion (€13.1 billion). All acquisitions are key elements in Merck's "Fit for 2018" transformation and growth program aimed at strengthening the company's three growth platforms.

In the healthcare business, your pipeline is dwindling. Revenues from existing blockbusters like Erbitux and Concor are diminishing. How do you plan to counter this?

I agree that our pipeline was not strong earlier, but that is changing. It is the same for all as drug development costs are rising on the one hand and regulatory benchmarks are getting stringent on the other. Our focus is on making cancer drugs and biosimilars (new versions of patent expired biotech drugs). It is also our strength. We are also building alliances like the one with Pfizer for developing drugs for various other therapeutic sectors, and with Dr Reddy's Laboratories for developing biosimilars.

Do you regret your decision to hive off your generics business, bought by Mylan in 2007, considering that governments all over the world are promoting generics to reduce healthcare costs?

It was the right decision back then and we don't regret it. Generics is a different business altogether involving high volume, low margin and involves big competition from too many companies. It was not the main focus of our strategy and the decision to diverse from generics was right. ◆

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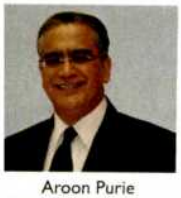

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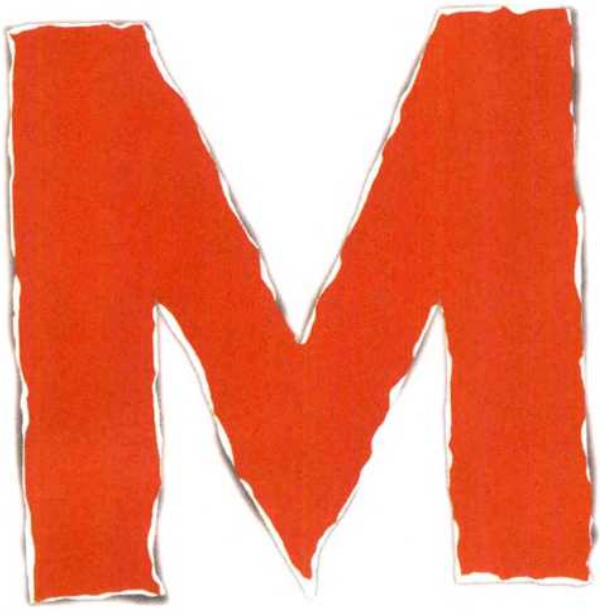
Harvard Business Review

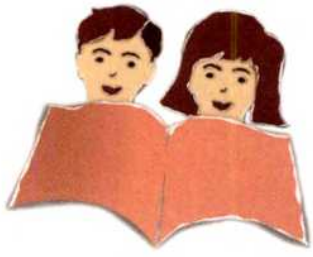
The Truth About CSR

Most of these programmes aren't strategic – and that's OK.

By KASTURI RANGAN, LISA CHASE, and SOHEL KARIM

RAJ VERMA





Most companies have long practised some form of corporate social and environmental responsibility with the broad goal, simply, of contributing to the well-being of the communities and society they affect and on which they depend. But there is increasing pressure to dress up CSR as a business discipline and demand that every initiative deliver business results. That is asking too much of CSR and distracts from what must be its main goal: to align a company's social and environmental activities with its business purpose and values. If in doing so CSR activities mitigate risks, enhance reputation, and contribute to business results, that is all to the good. But for many CSR programmes, those outcomes should be a spillover, not their reason for being. This article explains why firms must refocus their CSR activities on this fundamental goal and provides a systematic process for bringing coherence and discipline to CSR strategies.

To understand how companies devise and execute CSR, over the past decade we conducted in-depth interviews with scores of managers, directors, and CEOs who are directly or indirectly responsible for their firms' CSR strategies, and we have developed more than a dozen case studies on the topic. Most recently, we surveyed 142 managers who attended Harvard Business School's CSR executive education programme during the past four years (see the sidebar *About the Research*). Our findings were remarkably consistent.

Despite the widely accepted ideal of pursuing "shared value" – creating economic value in ways that also create value for society – our research suggests that this is not the norm. Rather, most companies practise a multifaceted version of CSR that runs the gamut from pure philanthropy to environmental sustainability to the active pursuit of shared value. Moreover, well-managed companies seem less interested in totally inte-

grating CSR with their business strategies and goals than in devising a cogent CSR programme aligned with the company's purpose and values.

But although many companies embrace this broad vision of CSR, they are hampered by poor coordination and a lack of logic connecting their various programmes. Although numerous surveys have touted the increased involvement of CEOs in CSR, we have found that CSR programmes are often initiated and run in an uncoordinated way by a variety of internal managers, frequently without the active engagement of the CEO.

To maximise their positive impact on the social and environmental systems in which they operate, companies must develop coherent CSR strategies. This should be an essential part of the job of every CEO and board. Aligning CSR programmes must begin with an inventory and audit of existing initiatives. Our research and work with corporations across the geographic and business spectrum show that companies' CSR activities are typically divided among three theatres of practice. Assigning CSR activities accordingly is a crucial first step.

Theatre One: focusing on philanthropy. Programmes in this theatre are not designed to produce profits or directly improve business performance. Examples include donations of money or equipment to civic organisations, engagement with community initiatives, and support for employee volunteering.

Theatre Two: improving operational effectiveness. Programmes in this theatre function within existing business models to deliver social or environmental benefits in ways that support a company's operations across the value chain, often improving efficiency and effectiveness. Thus they may – but don't always – increase revenue, decrease costs, or both. Examples include sustainability initiatives that reduce resource use, waste, or emissions, which may in turn reduce costs; and investments in employee working conditions, health care, or education, which may enhance productivity, retention, and company reputation.

Theatre Three: transforming the business model. Programmes in this theatre create new forms of business specifically to address social or environmental challenges. Improved business performance – a requirement of initiatives in this theatre – is predicated on achieving social or environmental results. Hindustan Unilever's Project Shakti ("empowerment") in India provides a good example. Instead of using its customary wholesaler-to-retailer distribution model to reach remote villages, the company recruits village women, provides them with access to microfinance loans, and trains them in selling soaps, detergents, and other products door-to-door. More than 65,000 women entrepreneurs now participate, nearly doubling their household incomes, on average, while increasing rural access to hygiene products and thus contributing to public health. These social gains have been met by business gains for the company: As of 2012, Project Shakti had achieved more than $100 million in sales. Its success has led Unilever to roll out similar programmes in other parts of the world.

As Project Shakti demonstrates, Theatre Three programmes need not be comprehensive. Most are narrow initiatives undertaken with a focused market segment or product line in mind, but with significant potential to alter the company's social or environmental impact and financial performance. Theatre Three initiatives almost always call for a new business model rather than incremental extensions.

Although each CSR activity can be assigned principally to a single theatre, the boundaries are porous: Programmes in one theatre can influence and complement those in another or even migrate. For example, a Theatre One initiative might improve the company's reputation and consequently increase sales. Thus, while it was not designed to drive business results, it may end up doing so and as a result migrate to Theatre Two. The valuable brand reputations of Tata in India, Grupo Bimbo in Mexico, and Target in the United States, to name just a few, are built in part on those companies' philanthropic and community engagement.

Similarly, activities in Theatre Two may give rise to new business models and thereby migrate to Theatre Three. Consider IKEA: Its People & Planet initiative calls for its entire supply chain to be 100 per cent sustainable by 2020, even as the company aims to double sales by the same year. This aggressive goal is driving the development of new business models to close the post-consumer recycling loop. IKEA will have to radically alter how it designs furniture and, even more important, devise new models for collecting and recycling used furniture.

Developing a Unified Practice Platform

Once managers have inventoried their firm's CSR activities, they can begin the rigorous undertaking of bringing discipline and coherence to the portfolio as a whole. Drawing on the experience of participants in HBS's CSR executive education programme and

our research and consultancy with companies, we have developed a four-step process for doing so. The steps are often interactive and iterative and needn't be followed in sequence, though all four must be executed. Companies seeking to coordinate established portfolios should begin with step one, which emphasises rationalising the programmes within each theatre. Companies building their first portfolios should start with step four, which focuses on developing an interdisciplinary strategy.

1 Pruning and Aligning Programmes within Theatres

While it may be unsurprising that CSR programmes are often poorly coordinated *across* theatres, our research reveals that poor coordination is common even *within* theatres. Thus the initial step for many firms is to bring coherence to the existing programmes in each theatre. To do so, they must reduce or eliminate initiatives that do not address an important social or environmental problem in keeping with the company's purpose, identity, and values. For example, a fast-food operator will be better served by a programme that collects excess food from supply chain partners and delivers it to local food pantries than by an employee blood-donation programme.

Let's look at how the large mid-western US bank PNC unified a multitude of Theatre One philanthropic and community service projects, spread across numerous business units, behind a single cause. With $100 million in funding for the period 2010 to 2015, its Grow Up Great initiative provides school-readiness resources to underserved populations where the bank operates. Until the advent of the programme, each PNC market had a CSR budget that regional managers allocated as they thought best, resulting in a well-intentioned but incoherent array of initiatives. Roughly 30 per cent of aggregate funds were going to the arts, 25 per cent to sports, 20 per cent to civic activities, five per cent to education, and three per cent to health. Then-CEO Jim Rohr unified PNC behind Grow Up Great because of his long-standing commitment to early childhood education, the eagerness of many employees to engage with a local cause, and the programme's alignment with the bank's community-development-oriented identity. By pruning its disparate CSR programmes, gradually easing out those without an early education focus, and encouraging regional managers to redirect their discretionary budgets to early education, PNC has built a well-funded initiative that correlates better with its employees' motivations and is likely to yield significant benefits to the communities the bank serves and relies on.

The family-owned Mexican baking company Grupo Bimbo demonstrates alignment in Theatre Two. Bimbo is the largest bakery in Mexico, with a workforce of nearly 100,000 and a similar number of small retailers in its network. Its comprehensive CSR programmes focus on social welfare: It provides free educational services to help employees complete high school and offers supplementary medical care and financial assistance for dependents' care to close the gaps in government health coverage. It also has a strong microfinance programme to help its mom-and-pop retailers manage working-capital shortages and pay for small capital additions. As Theatre Two initiatives, these are all explicitly intended to increase efficiency and effectiveness, and indeed they have improved employee performance and retention and strengthened Bimbo's distribution chain.

Aligning, then, is not about putting all your eggs in one basket, though that sometimes helps. It is about collecting activities that are consistent with the company's business purpose and have a valuable social goal that the company cares about. Sooner or later activities that don't fit these criteria have to go.

2 Developing Metrics to Gauge Performance

Just as the goals of programmes vary widely from theatre to theatre, so do the definitions of what constitutes success. For example, Theatre One programmes, as we've noted, are not designed to generate revenue or reduce costs, whereas Theatre Three initiatives are. Therefore, measuring top- or bottom-line impacts would be irrelevant for the former but is essential for the latter.

Gauging the success of a Theatre One programme requires measuring its nonfinancial outputs. For Grow Up Great, PNC tracks the volunteer hours its employees spend reading to children and the increases in those children's comprehension, along with the grant funding it provides to develop educational materials, the number of children receiving those materials, and the resulting improvement in school performance. It also measures additional funding that flows into early childhood education programmes from other entities as a result of its advocacy efforts. Partnering with nonprofits or other third-party evaluators can help companies credibly gauge the social impact of their Theatre One activities.

Because Theatre Two programmes may generate revenue or reduce costs, measuring their per-

formance calls on more-familiar, tangible approaches. These might include quantifying how energy- and waste-reduction initiatives impact the top or bottom line and improve air or water quality. Such measurements are commonly captured in corporations' annual sustainability reports. UPS, for example, enlists an independent auditing firm to evaluate its progress on energy use and carbon emissions reductions and reports both the cost savings and the resource savings. Its most recent sustainability report includes its total CO_2 emissions, the carbon emissions per mile driven by its fleet, the ground packages delivered per gallon of fuel used, and the number of miles driven by its alternative-fuel delivery vehicles. The report demonstrates both the environmental benefits of the company's emissions reductions and the bottom-line benefits of its reduced fuel use.

Not all Theatre Two financial benefits are realised soon after investments are made, however, so companies looking for business gains from activities in this sphere need an ongoing system to track net present value.

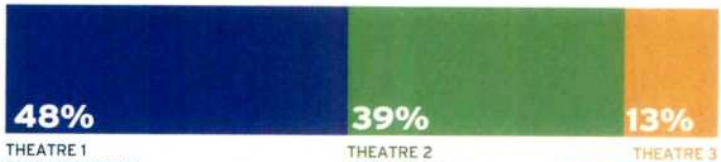
If benefits do not match expectations, corrective measures may be called for. And regardless of exactly how these factors affect business performance, a company must measure and report initiatives' social and environmental benefits. This enables it to judge whether its investment has produced the desired societal gains – although sometimes Theatre Two investments are made in anticipation of regulatory changes or market requirements and are best viewed as simply the cost of doing business.

Because they generally involve new business models, Theatre Three initiatives have particular measurement challenges. Consider Jain Irrigation, a global drip-irrigation-equipment supplier headquartered in India. Jain's shared-value business model was explicitly designed to benefit India's small, chiefly low-income farming landholders. Drip irrigation technology not only conserves water in a water-stressed environment but also supplies it in a controlled fashion, which helps increase agricultural yields. The company offers farmers microfinance

About the Research

We surveyed managers who attended Harvard Business School's CSR executive education programme during the past four years, asking them about the range, structure, and oversight of their firms' CSR activities. The fact of their attendance reflects their companies' interest in CSR, so our sample is probably biased in favour of companies with relatively advanced CSR practices. Still, 60 per cent of respondents said they were dissatisfied with their firms' CSR activities and direction and wanted to improve them. Other key findings are below

NUMBER OF RESPONDENTS 142
INDUSTRIES REPRESENTED Manufacturing, consumer-packaged goods, extractive minerals, financial services, media, telecommunications, and others
NUMBER OF CSR PROGRAMMES UNDER WAY IN THE RESPONDENTS' FIRMS 1,072



THEATRE 1 **PHILANTHROPY**
THEATRE 2 **OPERATIONAL IMPROVEMENTS**
THEATRE 3 **BUSINESS-MODEL TRANSFORMATION**

BENEFITS

Per cent of respondents who identified the following as top benefits of their firms' CSR initiatives:

THEATRE 1 **PHILANTHROPY**	THEATRE 2 **OPERATIONAL IMPROVEMENTS**	THEATRE 3 **BUSINESS-MODEL TRANSFORMATION**
Improves company's social standing: **84%**	Improves company's social standing: **94%**	Creates an important solution to a social/environmental problem: **89%**
Supports company's philanthropic priorities: **77%**	Improves company's environmental impact: **62%**	Promises long-term gains: **82%**
Increases employee motivation: **67%**	Protects resources on which the company depends: **58%**	Addresses senior management's social/environmental mission: **82%**

BUSINESS IMPACTS

Per cent of respondents who identified the following as impacts (THEATRE 1 and THEATRE 2) or anticipated impacts (THEATRE 3) of their firms' CSR initiatives:

Increased revenue: **13%**	Increased revenue: **32%**	Increased revenue: **31%**
Increased costs: **41%**	Reduced costs: **32%**	Reduced costs: **35%**
	Increased costs: **35%**	Increased costs: **36%**

loans to help them purchase its equipment, provides technical advice to help them increase productivity, and buys their output at guaranteed prices.

Since creating societal value is essential to business success in this theatre, firms must develop measures both of the social or environmental value produced by a new business model and of the financial results, and must demonstrate how the two are connected. In Jain's case, the improvement in crop yields was dramatic. For a typical investment of $500 per hectare, farmers increased their gross income per hectare by anywhere from $500 to $6,000, depending on their crops. The added value created for its customers enabled Jain to boost its top line while retaining its operating profit percentage.

Crucially for Theatre Three initiatives, companies must demonstrate superior social or environmental value for their external stakeholders while maintaining or improving internal bottom-line targets – a goal sometimes attainable only in the long run. That's why these initiatives, unlike those in Theatre Two, may involve risky business decisions. However, if successful, they can transform companies into net positive contributors to societal well-being. These are questions every business should ask: Does our fundamental business enhance society? Do any of our products and activities diminish that goal, and if so, how can we mitigate or reverse them?

Coordinating initiatives does not mean they all address the same social or environmental challenge. It means they form a coherent portfolio in keeping with the firm's purpose and values

3 Coordinating Programmes Across Theatres

Coordination across theatres does not mean that all initiatives should necessarily address the same social or environmental challenge. It means that taken together, they form a coherent portfolio, one whose initiatives are mutually reinforcing and consistent with the firm's business purpose and values.

Ambuja Cements, an Indian subsidiary of the Swiss conglomerate Holcim, illustrates such coordination. The founders of the company expressed a deep commitment to the communities where it sourced limestone and operated cement-production kilns. Ambuja's CSR initiatives, encompassing both broad social welfare efforts and environmental conservation and protection programmes, reflect that commitment. For many years after their inception they were largely Theatre One initiatives, managed by the Ambuja Foundation. But when Holcim acquired a controlling stake in the company, in 2008, it brought with it a more comprehensive focus on environmental and social sustainability. By 2010, Ambuja had initiated several plant-level environmental sustainability programmes, mainly in Theatre Two, to complement its corporate foundation programmes. These included improved water management in the company's plants, especially in drought-prone areas, and a concerted effort to increase the use of alternative fuels.

Using our four-step methodology, Ambuja began in 2010 to proactively coordinate its portfolio of CSR activities across theatres (see *Harmonising CSR at Ambuja*). For example, its alternative fuels programme, in Theatre Two, led to the expansion of a Theatre One programme for educating farmers about productivity practices, which now also includes instruction on recovering corn stalks, rice husks, and other farm waste – materials the company buys for use as biofuel.

In another instance of cross-theatre coordination, Ambuja's logistics managers identified the trucking fleet as an operational risk. The trucks were almost all owned by subcontractors, who often drove dangerously through villages as they transported limestone and cement. The managers realised that an accident could incur the villagers' wrath and potentially halt trucking operations. So they asked the Ambuja Foundation to launch a driving safety programme, which was later expanded to include health education on alcohol, tobacco, and HIV/AIDS. Here, too, a supply chain requirement in Theatre Two sparked an education programme in Theatre One.

In a third example, a "water neutral" programme in Theatre Two, involving Ambuja's mining operations, led to a highly successful programme for "water recharge" (the replenishment of aquifers and other groundwater systems) in Theatre One, which gained significant financial support from the local government. As a result, the adjoining farmland has become much more productive and the company's tracts of mined land, which would otherwise be fallow, have become

Harmonising CSR at Ambuja

Ambuja Cements, an Indian subsidiary of Holcim, has built a coherent portfolio that coordinates activities across theatres. In the examples below, initiatives originating in theatre two have led to activities in one or both of the other theatres

	OPERATIONAL IMPROVEMENTS THEATRE 2		**PHILANTHROPY** THEATRE 1		**BUSINESS-MODEL TRANSFORMATION** THEATRE 3
FUEL	An alternative-fuels programme was launched to increase the use of biofuels in the plant.	→	A farmer education programme was expanded to include instruction on recovering farm waste for use as biofuel.		
LOGISTICS	A trucking safety programme was initiated to reduce accidents.	→	The programme was expanded to include education on alcohol, tobacco, and HIV/AIDS.		
WATER	Initiatives were launched to reduce the firm's water use and treat its wastewater.	→	A "water recharge" programme replenishes groundwater systems, making formerly mined land arable again.	→	Reclaimed farmland with good water supplies is offered to landowners in exchange for new land for mining.

arable. All this has enabled the company to push for an ambitious business-model transformation in Theatre Three, where it can offer reclaimed land with good water (plus cash compensation) in exchange for new land to mine. Ambuja is now aiming to offset its plastic consumption by burning more waste plastic as fuel in its kilns than it uses to package its cement, and it is also attempting to significantly decrease its carbon emissions.

4 Developing an Interdisciplinary CSR Strategy

Coordinated support for CSR initiatives at the top levels of executive management is critical to success; we heard this consistently from CSR professionals during our research. Ideally companies should establish a position to be filled by someone whose primary responsibility is to integrate initiatives across all three theatres – regularly convening the key players in each theatre to ensure ongoing communication and alignment – even if responsibility for individual initiatives remains dispersed.

Yet such coordination is all too rare, and the range of purposes underlying initiatives from theatre to theatre and the wide variation in those initiatives' management constitute major barriers for many companies. Purely philanthropic programmes often reside with managers who have titles such as VP of corporate (or community) affairs; these CSR leaders commonly report to the HR chief and thus are two levels removed from the CEO. Alternatively, at large companies the head of the corporate foundation may handle philanthropy and community giving. Theatre Two initiatives are typically run by operations managers (and sometimes by environmental specialists), who may have a dotted-line reporting relationship to the VP of sustainability or the chief sustainability officer. CEOs, sometimes in concert with one or two senior managers, are more likely to become directly involved with shared-value initiatives, but our research indicates that this occurs at only about 30 per cent of companies; in some cases CSOs have oversight, and often no single executive is in

charge of these programmes. With responsibilities spread among three sets of individuals at three different levels, it's no surprise that companies often struggle to mold a coherent CSR vision.

In our research and consultancy we've seen two effective approaches to CSR strategy development, one top down and the other largely bottom up. The latter approach first:

In 2010, Ambuja established sustainability committees, which have oversight of all social and environmental activities, at both the plant and the corporate levels. The plant-level committee meets every month and funnels issues of companywide importance, such as driver safety training and alternative fuels, up to the corporate-level committee. Both groups include representatives from the Ambuja Foundation. The corporate committee also includes regional heads, who oversee the company's plants; the foundation's head; and the heads of corporate functions such as marketing and sales, HR, procurement, and land acquisition. At each corporate-level meeting, members discuss issues flagged by the plant-level committee along with concerns of their own. This process has enabled the coordination of Theatre One and Theatre Two activities and the stretch towards a Theatre Three transformation of Ambuja's business model that we've described. The aspirational CSR goals of the company are to give back more than it takes from the community and to clean more than it pollutes in its manufacturing operations – a vision made possible only by this active input from across Ambuja and the effective coordination across the three theatres.

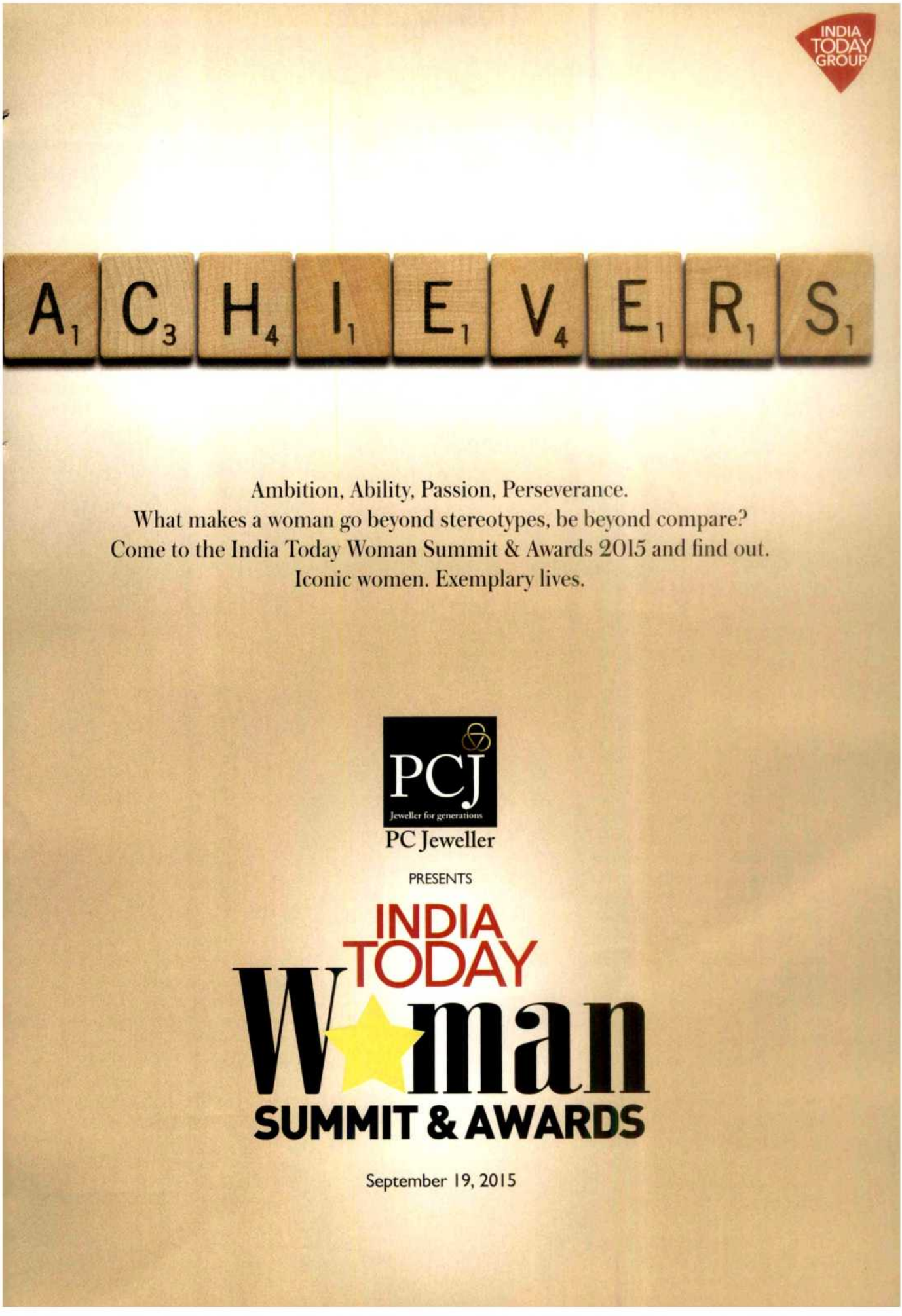
In one instance of cross-theatre coordination, logistics managers identified the trucking fleet as an operational risk and asked for a driving safety programme, which was later extended to health education

IKEA has developed its blueprints in a top-down manner. When the company hired Steve Howard as its CSO, in 2011, it appointed him to its seven-person executive management group. This group, which includes the heads of all the operating divisions, sets the company's vision and develops its strategy. Its work has facilitated the simultaneous pursuit of aggressive growth and bold sustainability plans we mentioned earlier, along with a social welfare initiative known as the IKEA Way – an array of programmes related to preventing child labour and maintaining other labour standards throughout the supply chain. The sustainability agenda thus crafted at the top is being executed throughout the company.

IT'S NEITHER practical nor logical for all companies to engage in the same types of CSR, since CSR programmes are driven by diverse factors, including the industry and the societal environments in which businesses operate and the motivations of the people who staff, run, and govern each company. For example, although a manufacturing company may have rich opportunities to reduce its environmental impact, a financial services company may be hard-pressed to do so – but it may be vastly more successful in the social sphere, with significant initiatives supporting financial inclusion and literacy. In a country lacking sufficient government funding for public health, a company's philanthropic funding for clean water and sanitation may be far more valuable to the community than carbon mitigation initiatives to reduce climate impact, while a society that enjoys robust government provision for social welfare services may place greater importance on environmental conservation programmes.

Best-practices companies operate coordinated and interdependent programmes across the CSR portfolio. Some of their initiatives indeed create shared value; some, though intended to do so, create more value for society than for the firm; and some are intended to create value primarily for society. Yet all have one thing in common: They are aligned with the companies' business purpose, the values of the companies' important stakeholders, and the needs of the communities in which the companies operate. These companies, of course, stand in stark contrast to those that are focused solely on creating value for their shareholders. ◆

Kasturi Rangan *is the Malcolm P. McNair Professor of Marketing at Harvard Business School and a cofounder and cochair of the HBS Social Enterprise Initiative.* **Lisa Chase** *is a research associate at Harvard Business School and a freelance consultant.* **Sohel Karim** *is a cofounder and the managing director of Socient Associates, a social enterprise consulting firm.* *This article was published in* Harvard Business Review, *January-February 2015.* *Copyright ©2014 Harvard Business School Publishing Corporation. All rights reserved.*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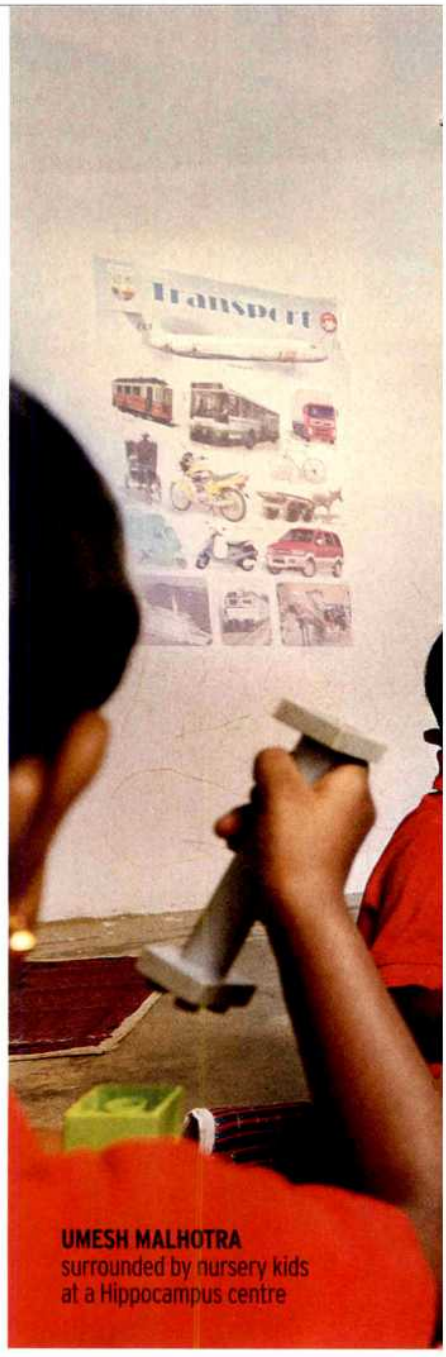
MOULDING YOUNG MINDS

Serial entrepreneur Umesh Malhotra set up an education services venture to provide quality education to children in rural areas and small towns.

By VENKATESHA BABU



UMESH MALHOTRA surrounded by nursery kids at a Hippocampus centre

Not much is notable about Channagiri town in Karnataka, apart from a hill fort built in the 17th century and a few locally well-known temples. But the town of 20,000 people is seeing signs of change. In a small but well-lit room of a preschool, a bunch of four-year-old kids are learning simple English words as they point out objects associated with each alphabet on a chart. Nanditha, a sheep rearer's daughter, wearing a bright yellow T-shirt and a dark blue skirt, responds confidently in English to the questions posed. A common enough scene played out across thousands of schools in India, one would presume, except that this is in a backward region of Karnataka, about 265 km northwest of Bangalore.

The facilities on offer at this preschool are on a par with the best that most private institutions offer and the teachers seem to be trained and motivated. It is an initiative by Hippocampus Learning Centres (HLC), which runs a chain of such rural preschools, primarily in Karnataka and Maharashtra. What sets HLC apart is that it focuses only on nursery school education (kids between two-and-a-half years and six years) and operates in towns and vil-

QUICK FACTS

Incorporated: 2010

Funding: Angel investment of ₹1.8 crore in 2010; Series A, May 2012, of ₹8 crore; Second round in July 2014 of ₹15 crore

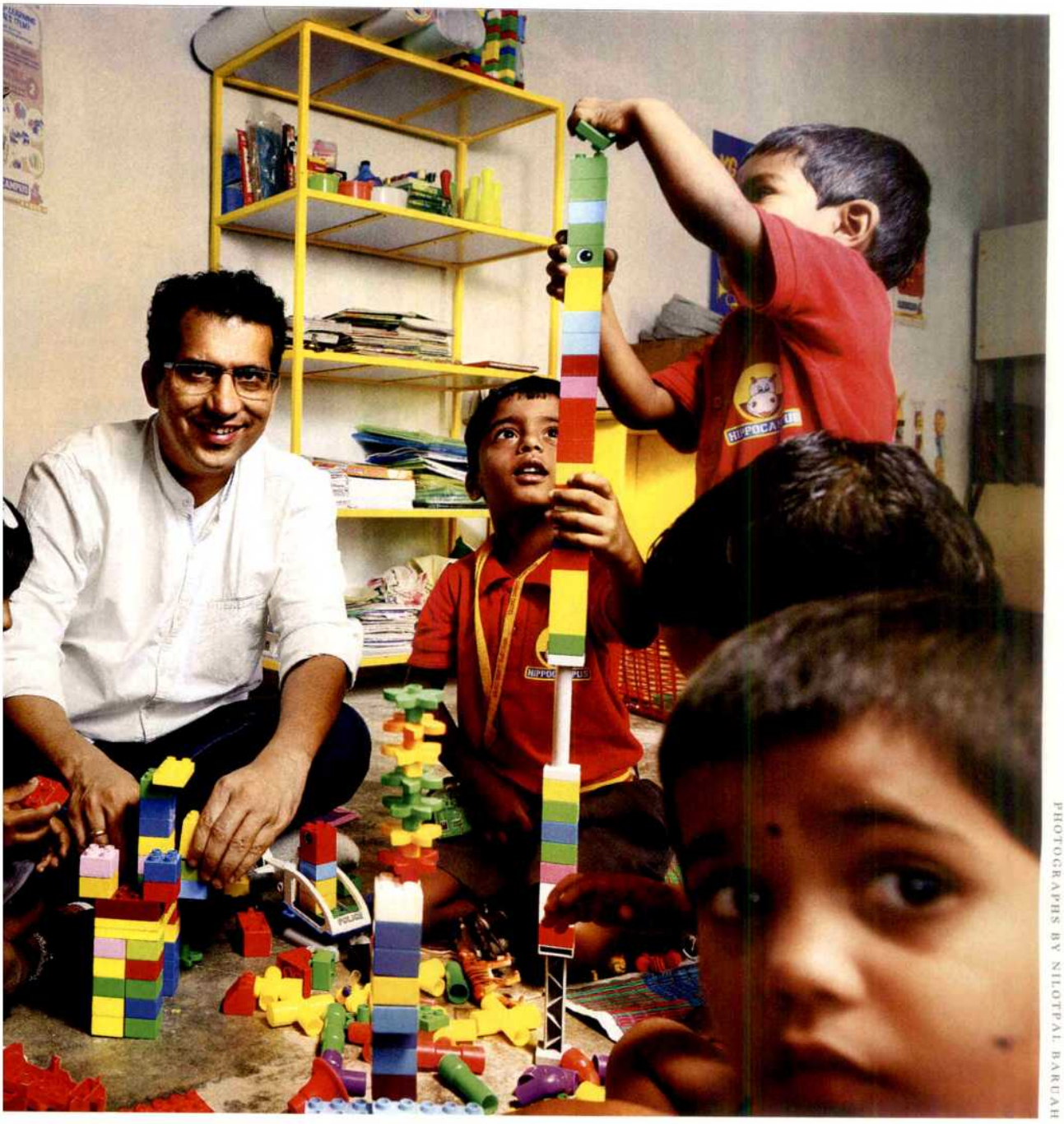
Footprint: 212 centres, 7,000 children

Expansion: 600 centres by 2016, to get into Andhra Pradesh, Telangana and Tamil Nadu

Employees: 600

Mission 2020: Educate two lakh children at HLC centres

See interview with Umesh Malhotra at businesstoday.in/hippocampus-malhotra

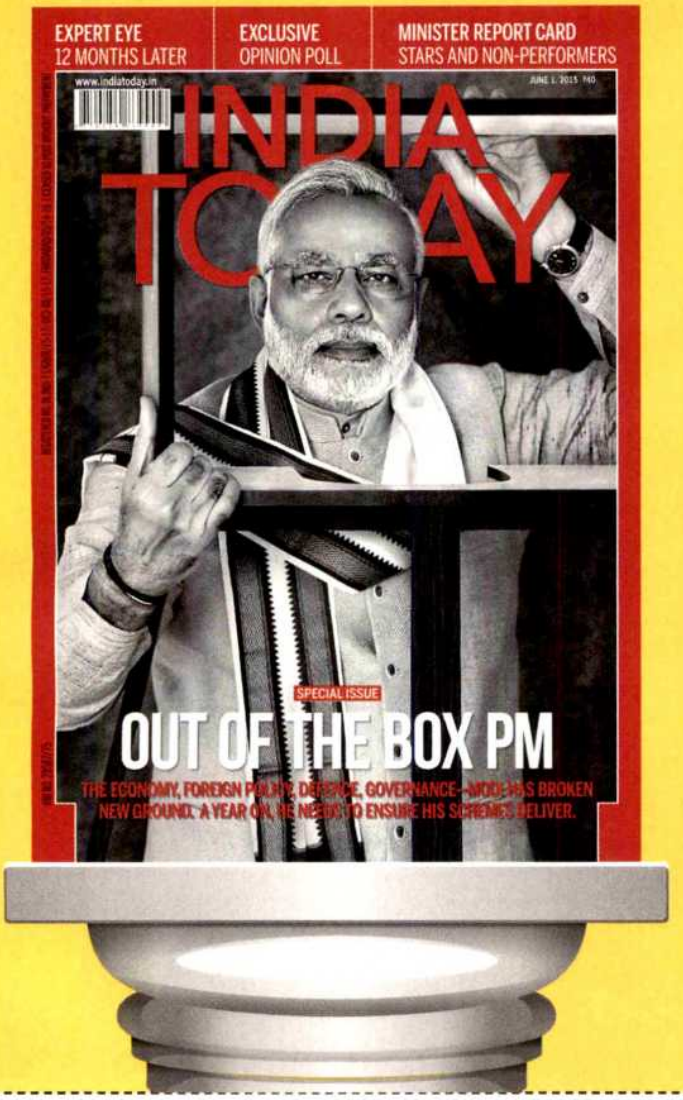


PHOTOGRAPHS BY NILOTPAL BARUAH

lages with less than 15,000 people. The man behind HLC is Umesh Malhotra, an alumnus of IIT Madras.

Malhotra worked with tech giant Infosys before starting his entrepreneurial journey. He quit Infosys in 1999 to co-found Bangalore Labs – one of the early IT infrastructure management companies in India – before exiting it. Malhotra says that, after achieving success, he wanted to give back to society. He remembered that, during his work stints in the US, he used to enjoy going to the public libraries with his son. But when he came back to India, he did not find similar world-class facilities. As he was interested in reading and education, he started a library called Hippocampus near his home at Koramangala in Bangalore where kids, especially from poor backgrounds, could play as well as learn with toys, books and music. Hippocampus was named after the part of the brain that helps in storing memory and spatial navigation.

Over the next few years, Malhotra realised that a vast majority of children, especially in rural areas, do not have access to kindergarten education. In most parts of rural India the only school is usually the government-run *anganwadi*, which functions more as a creche than a school. The few private schools are expensive and the staff is poorly trained. Malhotra decided to incorporate HLC as a for-profit



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company that would not only do social good but also be viable. HLC was incorporated in June 2010 with investments from friends and family of about ₹1.8 crore, and the first preschool was launched nearly a year later.

Instead of rote learning, HLC emphasises hands-on learning of basics in English, Math and the local language, apart from teaching hygiene and environmental awareness gleaned from Montessori methods. HLC charges ₹200 to ₹250 per student per month depending on which standard the kid is in. "The teaching quality is really good at Hippocampus," says Mahalakshmi, a house wife whose five-year-old daughter Ramya studies at HLC's Kadalur centre near Mandya. "The fee is also very affordable."

HLC is focusing on *Project Finland: Mission 2020*. The goal of this project is to annually educate two lakh children by 2020

Malhotra says HLC will focus beyond Tier-III cities and towns. "We will not be in A, B, C category of cities but more like D, E, F towns where only ITC and Life Insurance Corporation might have a marginal presence." Setting up each centre costs about ₹1 lakh and has an equal amount of annual recurring expense. Malhotra says about 80 per cent of his customers pay. "On average if we get 40 students per centre at the kind of fees we charge, we are viable."

HLC has raised ₹24.8 crore till date from several marquee investors like Acumen Fund, Lok Capital, Unitus Seed Fund and the Asian Development Bank. "Hippocampus is focused on improving learning outcomes in rural India through empowerment of local women who are trained and employed as teachers. These are truly aligned with the ADB's vision to reduce poverty in Asia," says Aniruddha Patil, Senior Investment Specialist at the ADB's Private Sector Operations Department.

Will Poole, co-founder and Managing Partner, Unitus Seed Fund, says Hippocampus was one of the fund's first investments. "And it's one of our best. We invested based on the capabilities and vision of Malhotra. It's not often one finds an entrepreneur with the ability to achieve the high goals he sets for himself and his team. Second, we invested in a business that can be highly scalable and profitable while serving a dire social need: educating kids during the critical period of brain development, before they enter primary school."

Scaling is certainly on Malhotra's mind. HLC, since launching the first batch of 17 schools in June 2011, today runs 212 schools primarily in Karnataka and Maharashtra, educating about 7,000 kids and hopes to end the year with 300 schools. HLC is planning to next roll out in Andhra Pradesh, Telangana and Tamil Nadu before venturing nationally. While HLC is operationally profitable, it has ambitious goals of eventually running 15,000 centres. It is also looking to raise an additional $8 million to $10 million this year to expand its operations.

Malhotra says HLC is focusing on *Project Finland: Mission 2020*. The goal of this project is to annually educate two lakh children by 2020 at the same standards as children of Finland of that age get. Finland has, of course, been recognised globally for its high quality of preschool education. HLC intends to deliver the same outcome at one per cent of what it costs Finland. Poole of Unitus says he believes Hippocampus has the ability to achieve incredible scale in fulfilling their vision. "They can do this because they have figured out a scaling model that embraces local communities and their needs, creates new teachers (rather than depending on finding existing ones), and delivers exceptional educational outcomes, making their programmes highly desirable country-wide."

HLC also has started tying up with rural private schools – for a fee – to train their teachers and share their curriculum while opening a new income stream for itself. It already works with 50 private schools. "The intention is not to substitute or take away anybody's business," says Malhotra. "Demand is so huge that there is room for so many more players." ◆

@venkateshababu

RAJ VERMA

Best Personal Assistant Apps

From buying grocery and seeking the help of a locksmith, to lodging a complaint or towing a car at the dead of the night, convenience service apps help you get everything done. By NIDHI SINGAL

Time is money. More importantly, time is scarce. Today, every minute counts because our lives have become more fast-paced and hectic than ever before. And, every minute you spend doing mundane tasks, is a minute taken away from doing what you love. So, here's how you can free up time by logging in to the world of convenience service apps – simple, fast and hassle-free, and just a click away from solving your everyday problems.

First, it was your bank which let you access your account details and do your financial transactions from within the comforts of your home, then it was online retail that saved you trips to the local vegetable vendor, grocer or home furnishing store, and even helped you click and pay for your electronics, furniture and lifestyle goodies. Today, many early-stage start-ups have started knocking on your doors to connect you with skilled professionals, who could even help you fix a leaky toilet or a power outage from a short circuit. *Business Today* shuffles through a host of convenience apps to stitch up a list of the best. However, the services are mostly restricted to the metropolises, including Delhi NCR, Mumbai and Chennai. Hopefully, they will soon come knocking at your door, too, if you happen to live in a smaller town or city.

GS

GoodService: It acts as your personal delivery boy. A simple app-based service that addresses almost all your needs over a chat – be it hiring a plumber, carpenter, electrician, locksmith or getting a cake delivered at your home. It can also book movie tickets or fix an appointment with your doctor. Available in Delhi and Gurgaon, the company is about to launch its services in Mumbai and Bangalore, too. You can download the app from Google Play store, and key in your name and mobile number to register. Every time you access the app, a chat window pops up for you to post your requests, 24x7. When I enquired about an air conditioner mechanic around 8 p.m., the app shared various vendor profiles and helped me find one who would visit at a time of my convenience. It also communicated the visiting and repair charges. For booking movie tickets, it shares the seat plan and facilitates payment by sharing a link. The app can also help to tow a car even during the night. The company claims to have trusted vendors and, if something goes wrong, is willing to bear the cost as well. GoodService plans to introduce Paytm wallet for making payments hassle-free.

Haptik: If you want to set up auto debit to make credit card payments from your bank account, but finding it difficult to do so, or get a complaint registered for a glitch in your washing machine, Haptik can come to your rescue. The app has been designed to do a host of things under various categories and to enhance your experience. For instance, finding local services or businesses, reserving a seat at a restaurant, finding discount coupons, locating the nearest ATM, or buying something online, finding the best or cheapest flights, helping with government services, finding a car or bike price, tracking the status of your online order, troubleshooting your phone or laptop, booking a spa or salon appointment, and, most importantly, filing a complaint or a service request, is as easy with app as it gets. Once you

select a category, you can select the vendor, operator, or service provider you are looking for. When you select a company, a new chat window pops with a person at the other end answering all your queries. The response time, according to the company, is two minutes and you can usually get your work done without any hassle. To file a complaint or service request, Haptik lets you access a lot of companies, including new brands such as Xiaomi and Air Vistara. It started as a customer support service for brands through messaging, but has now evolved. It also shares the direct complaint number for the service centre. This is a handy app for almost any kind of services.

Time Saverz: Available in Mumbai, Bangalore, Pune and Hyderabad, Time Saverz is here to offer a better life. You can book trained professionals for cleaning, repairs, handymen, errands, pest control and grooming. These are further divided into sub-categories. For instance, under cleaning you have washroom, home, fridge, sofa, window, after-party and even a separate service for shoes. For repairs, you can get mechanics for microwaves, washing machines, purifiers, computers, air conditioners , chimneys and refrigerators. Carpenters, masons, electricians, plumbers, and skilled hands for waterproofing and painting are available under the handymen category. You can book a service and then pay before or after the job is completed. The company claims to send trusted executives for the job and offers on-time service. Some services are slightly expensive when compared to local vendors as the billing involves taxes as well. But at most times you can get 20 per cent cheaper rates using online promo codes.

Urban Clap: This service acts as a mediator between the customer and a service provider that one may look for. For instance, if you are looking to hire a professional photographer, the app will help you in finding one that fits well within your budget. Once you have registered the request, you get to view the profile of various vendors, which includes the experience of the person, his or her rates, and lists work samples and reviews posted by other users. You can directly hire or connect over the call, too. You also receive a notification through an SMS. You can use this service to hire a chef, yoga or fitness trainer, or register for guitar lessons, car cleaning, carpenters, etc. While selecting the category, the app asks for details such as your budget.

Look Up: Provides a chit-chat like experience with nearby shops without having to dial up their numbers. You can find whether a product is available or get information on the businesses in your locality. Once you register, using your location, it will provide you with a list of businesses that are available on chat. You can post queries in the chat window. This service is live in Bangalore and Mumbai.

Grofers: This is yet another grocery shopping app that arranges delivery from your local grocery store. It asks for the location and then lists the grocery stores along with the estimated time of delivery of products. Once you select the store, it shows the list of products available at the particular store. As you proceed to checkout, it shows you the estimated delivery time for the same day. If you opt for tomorrow or day after tomorrow delivery, it also allows you to select the time of delivery. This app can even be used to order products from a nearby bakery, cosmetics stores, pet care and electronics shop. There is a promotions segment, too. Searching products is easy as all household products are divided into various categories, such as baby products, beverages, biscuits and snacks, breakfast and dairy, canned and packaged food, grocery and staples, personal care and household needs, among others.

Nature's Basket: You can save a trip to the local market for fruits and vegetables if you download the Nature's Basket app. Available in Mumbai, Pune, Delhi NCR, Bangalore and Hyderabad, it allows you to select from a wide range of fruits and vegetables, delicatessens, international cuisine, Indian grocery, health food, confectionary and desserts, cheese and dairy, eggs and meats, snacks and appetisers and much more. Just like shopping on any e-commerce site such as Amazon or Flipkart, you can add the products to the cart. It allows you to create separate lists for easy access. When you use it for the first time, it asks for the delivery pin code. It offers free shipping for over ₹1,000 orders and even offers three-hour quick delivery. However, there is one small glitch. You will have to quickly go about with the process once you proceed to checkout as the connection times of in some time. ◆

One Step Ahead

The HTC One E9+ has the features of a flagship smartphone, with a mid-segment price tag. By NIDHI SINGAL

The HTC One flagship smartphones have simple yet elegant designs. The One E9+ is no different. The champagne gold metal chassis gives it a classy look. It is sleek at 7.9 mm and has a bright 5.5-inch 2K display (1,440x2,560 pixel) that offers crisp, clear text and great viewing angles. It comes with Gorilla Glass 4 protection for increased damage resistance. The speaker grills are at the top and bottom of the display. Instead of metal back, the E9+ has a matte plastic rear, which I am not really fond of. This is a dual SIM smartphone (both nano SIM support) and, along with the memory card slot, the SIM slots are also housed on a tray hidden under the plastic flap.

Being a mid-segment smartphone priced at ₹36,790, the HTC One E9+ offers a powerful performance. Watching videos on the QHD screen was a treat, and the BoomSound stereo speakers only added to the experience. It has got an impressive 20 MP rear camera along with a 13 MP front facing one for capturing selfies. The touch focus works well. The images captured have great details and the colours look natural. It has got a few preset modes and one can explore imaging further using the manual mode.

BAG IT OR JUNK IT:

Offers great value for its price

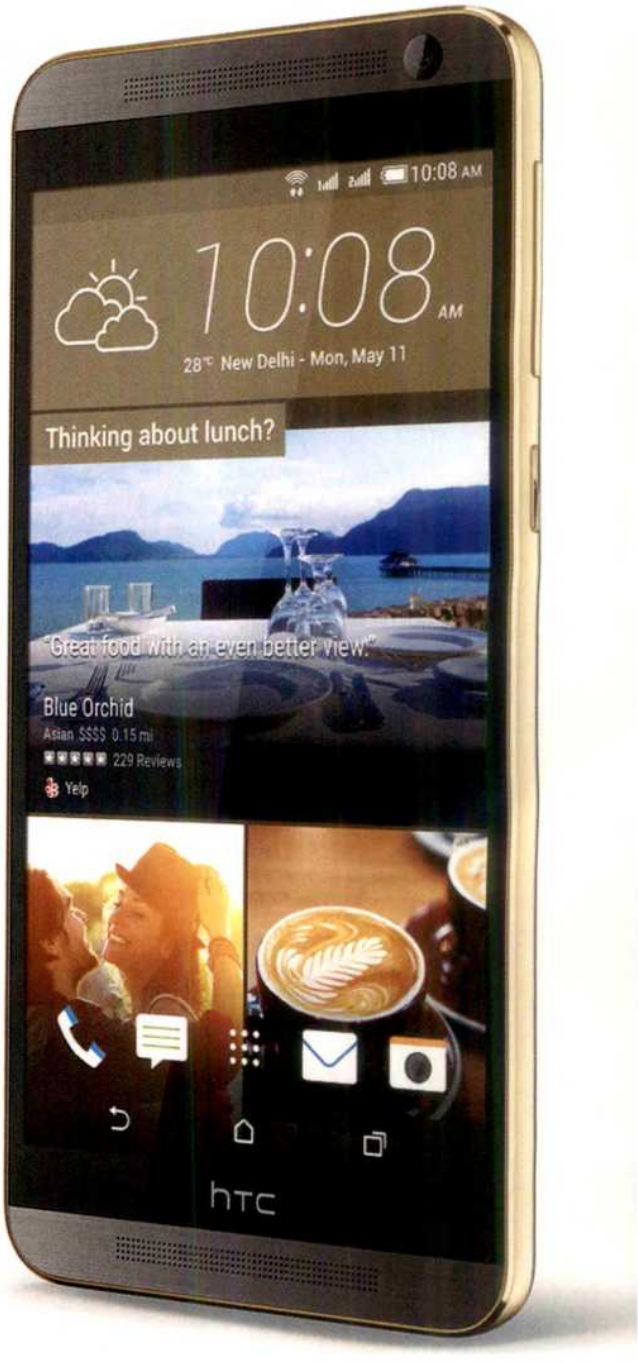
PRICE: ₹36,790

RATING: 4.5/5

PLUS: Display, camera, sound, performance

MINUS: Plastic rear

One E9+ has got the 64-bit MediaTek octa-core processor clocked at 2 GHz, and is paired with 3 GB RAM. Even though it has got Android Lollipop, HTC has added its Sense UI 7 to this smartphone. The interface is neat and all the apps are stored in an app tray. The phone handles heavy graphic games, such as UFC, with ease. One can download apps, stream videos from YouTube, browse the web, and use camera for longer durations smoothly, and without any lag. Most importantly, when most smartphones heat up after a few minutes or hours of usage, the One E9+ does not heat up at all. It has got 32 GB internal storage, and can support up to 2TB memory card. The 2,800 mAh battery on board lasted a day with above-average usage. ◆



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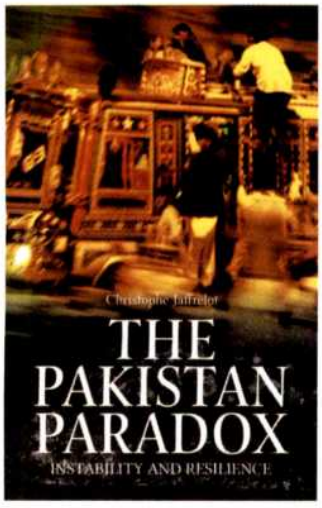
The Tale of a Resilient Nation

Despite its length, the book is well worth a read for lay readers and scholars alike. By T.C.A RANGACHARI



The Pakistan Paradox: Instability and Resilience

By Christophe Jaffrelot

PAGES: 670

PRICE: ₹695

Random House India

Pakistan has discovered, but not been deterred by, the heavy, unanticipated costs: military, financial, drugs and, most menacingly, the jihadists

A deeply researched account of Pakistan, this book is an attempt to make sense of what drives the country and where it is headed. The author posits that centralisation, democratisation and Islamisation are the three sources of the 'paradox'. The first recounts the emergence of separatism that led to the creation of a nation; the second, evolution of the state and polity; and the third, the continuing contest for the soul of the nation between contending forces, including the jihadists.

Christophe Jaffrelot seeks to explain Pakistan's chronic 'multi-sectoral instability' denoted by cyclical ethnic conflicts and exacerbated by the Islamist pull in terms of history and sociology. He identifies the tensions as arising from: the contradiction between a unitary state and strong provincial ethnic identity; authoritarianism and democracy; contending concepts of Islam. Jaffrelot points to Pakistan's compulsion to conjure up and sustain an external threat to contain internal conflicts.

In recent years, the strategy to 'bleed' India has evolved as the concept of 'Strategic Depth' vis-a-vis Afghanistan. There is extensive documentation – in large part from Pakistani sources – to expose the lip service, eye-wash, double-speak, double-dealing, in the face of which 'plausible deniability' regarding Pakistan's adventurism is no longer sustainable. Yet, there is a credulous international community out there which, time and again, renews the lease of life to Pakistan in the belief that the leopard can, indeed, change its spots.

Pakistan has discovered, but not been deterred by, the heavy, unanticipated costs: military, financial, drugs and, most menacingly, the jihadists. Normalisation with India remains stalled. The Taliban has served as Pakistan's proxy but has also been a client of the Al Qaeda. The jihadists are willing instruments to do Pakistan's bidding (in J&K, for instance); they also fight Pakistan when their interests are threatened. From being a trusted ally, Pakistan, in the words of Mullah Zaeef, the Taliban Ambassador to Pakistan, is regarded as a 'cancer' on the Afghan body politic. It sought to control all talks it "participated in or mediated".

Domestically, the state's securitisation has resulted in the army taking on a dominant role; civilians have got relegated to the background. As it was, [Pakistan's founder Muhammad Ali] Jinnah's insistence on parity between minority and majority made it difficult for democracy, based on the principle of majority rule, to take root. Civilians have been insufficiently democratic; the military insufficiently authoritarian. The public welcomed the periodic replacement of one with the other. Now, the facade is civilian; power rests with the army, a pointer to future dispensations.

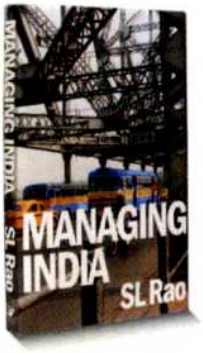
Islam remains the most contentious, and potentially the most threatening, tension. Jinnah had endorsed sharia as the basis of law in Pakistan. Once the country became an Islamic Republic, the march towards Islamism was inexorable. Sectarian conflict is endemic, threatening a vertical split. Over decades, successive regimes have allied with, and provided sustenance to, Islamist forces. The genie can no longer be put back in the bottle. One awaits the denouement.

Jaffrelot concludes that Pakistan, despite the 'paradoxes', remains resilient. Whether one is in agreement or not, he has amassed a wealth of historical and contemporary material that should make this book beneficial reading – despite the length – for lay readers and scholars alike. ◆

The reviewer is India's ex-ambassador to France and Germany, and a Pakistan expert

Lacking Punch

The book dwells on the problems confronting India but only skims the surface. By ANILESH S. MAHAJAN



Managing India
By S.L. Rao
PAGES: 243
PRICE: ₹995
Academic Foundation

One good thing about this book is its timing. It hits the stands at a time when the nation is trying to assess the ability of Prime Minister Narendra Modi and his team, at the centre and in the states, to provide good governance. Indeed, a few state governments of Modi's BJP – in Maharashtra, Haryana and Jharkhand – have come under fire for not focusing enough on development. Even Modi has received some flak for not getting his act together.

This book then, written by eminent academician S.L. Rao, should have provided some lessons for policymakers in India. It, however, does not offer solutions, nor does it show the way forward. It does, though, piece together recent developments, focusing on key takeaways from them, which some may find useful. It touches upon a whole gamut of issues: social engineering, regulatory framework, energy security, challenges in agriculture, comparison with China, India's aspiration of becoming superpower in this century, crony capitalism, RSS influence on government, FDI in retail, among others. Indeed, it touches upon almost every issue that is essential to managing India. At least the structure is right. Modi and other politicians will need a thorough understanding of these subjects to manage India.

However, the book falls short on one important aspect. It lacks details and has few anecdotes. Also, at times you may disagree with the author. For example, in the beginning of the fourth chapter the author asserts that the government does not learn from the experiences of leading corporates. It's difficult to agree with this argument since we are witnessing a fall in corporate governance standards globally.

In the next chapter, when the author harps on statutory regulatory commissions, one would expect him to offer us great insight on how to make a telling difference on the ground – more so, since he was the first chairman of Central Energy Regulatory Commission for three years – but you are left disappointed. Some may also disagree with Rao's contention that India can learn lessons from China on economic governance. He argues that China delegates considerable authority to local governments while India does not. But can the Chinese model be replicated in India, given that it is a single party-controlled system in that country?

Rao has worked with several multinational companies, academic institutes and industry bodies. Now, given his credentials, one would have expected rare insights on several issues – it would have made the book a fascinating read. In its present form, the book disappoints somewhat. ◆

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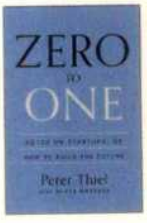

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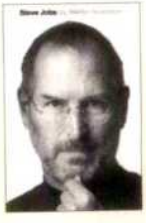

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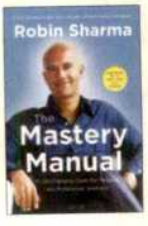

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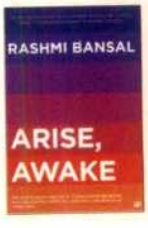

Arise, Awake
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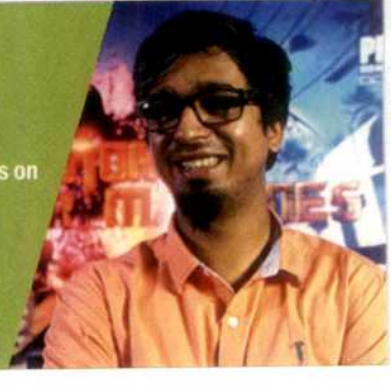

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Description: Perform detail review of all Financial Statements, including the Balance Sheet, Trial Balance, cause of change, account reconciliations, Material Journals, and Reporting before it is reviewed by client.

TopSource Global Solutions
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Job ID: 15097440
Description: Responsible to ensure that his attendance is regular and his absences are planned.

Calsoft Labs India Pvt Limited.
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Kissa Kisan Ka

Where did the princely sum of ₹6.31 crore paid by Prasar Bharati to the ad agency Lintas to promote the state-run DD Kisan vanish? **AMITABH BACHCHAN** dropped a bombshell when he declared that, contrary to reports that he got the amount as his most expensive endorsement ever, he has not charged a single paisa. "My 'deliverables' on this campaign have been executed by me many days ago. I work pro bono on various issues and DD Kisan Channel is one of them," he said in a statement. At the time of going to press, Lintas, the ad agency representing the channel, said it had initiated the process of refund to DD Kisan as soon as it learnt about the actor's decision to work for free on issues that are in the best interest of the nation.

Amitabh Bachchan
Bollywood superstar

DEBAJYOTI CHAKRABORTY

VIVAN MEHRA

N.R. Narayana Murthy
Co-founder, Infosys

Shaking Things Up

N.R. NARAYANA MURTHY, 68, co-founder and Non-executive Chairman of Bangalore-based software giant Infosys, is not known to sugarcoat his views. In a sharp convocation address at the Indian Institute of Science, Bangalore, he said that there was "no earth-shaking invention from India in 60 years". The elder statesman of the IT industry may have got trolled on the Twitterati but his statement has sparked a debate on what ails Indian innovation.

Ginni Rometty
CEO, IBM

Championing India

Big Blue, as IBM is known globally, maybe feeling blue following the news of its revenues falling for the 13th consecutive quarter. However, its global CEO **GINNI ROMETTY**, who was in India recently, displayed no nervousness and maintained her sangfroid as she praised the country and the market opportunity here. Pointing out that India will likely overtake China in growth rates and appreciating the action on the start-up front, Rometty said the 21st century would belong to India. She is known to be a champion of India within IBM for many years now and has also visited the country regularly for 15 years.

DEEPAK G. PAWAR

Kim Ki-Wan
MD, LG India

Targeting Durable Growth

South Korean electronics giant LG has appointed Kim Ki-Wan as the new Managing Director for its India operations, replacing Soon Kwon. In his new role, Ki-Wan, who has been with the Seoul-based company for 33 years now, will work towards LG India's growth strategy with focus on innovation, quality and service excellence. While LG registered a turnover of ₹18,500 crore in 2014, this mid-year management change raises questions about the company's slow growth during Kwon's leadership. Kwon, who would have completed five years in his post in November, will now take over as Global Head for Information Display Business. Ki-Wan was earlier the Executive Vice President of Home Entertainment and Marketing Group.

C. Sivasankaran
NRI businessman

Sigh of Relief

Here is some good news for the beleaguered NRI businessman **C. SIVASANKARAN**. The recent order of the telecom tribunal – TDSAT – has granted a refund of some ₹338 crore to his telecom venture S Tel. The case dates back to 2010 when the company paid ₹337.7 crore for 3G spectrum fee in three circles. In 2012, when the apex court cancelled the 122 telecom licences, S Tel also lost its licence but it continued to hold the spectrum. Then, last year, the government withdrew its spectrum following which S Tel decided to move the telecom tribunal. The past two years have not been particularly pleasant for Sivasankaran. Last year, in fact, he was even declared bankrupt by the Supreme Court of Seychelles.

COMPILED BY VENKATESHA BABU, NIDHI SINGAL AND MANU KAUSHIK

Full interview with Bikram Dasgupta at businesstoday.in/globsyn-dasgupta

After Make in India, Skill India is the talk of the town. *BT*'s **Chitra Narayanan** catches up with Globsyn Group's founder and Executive Chairman, **Bikram Dasgupta**, an IT veteran and co-founder of PCL, who now is an entrepreneur in the skills sector. Excerpts:

"Eduskills will become India's mainstay"

If you are an entrepreneur in the skills sector, how do you identify which skills to get into?

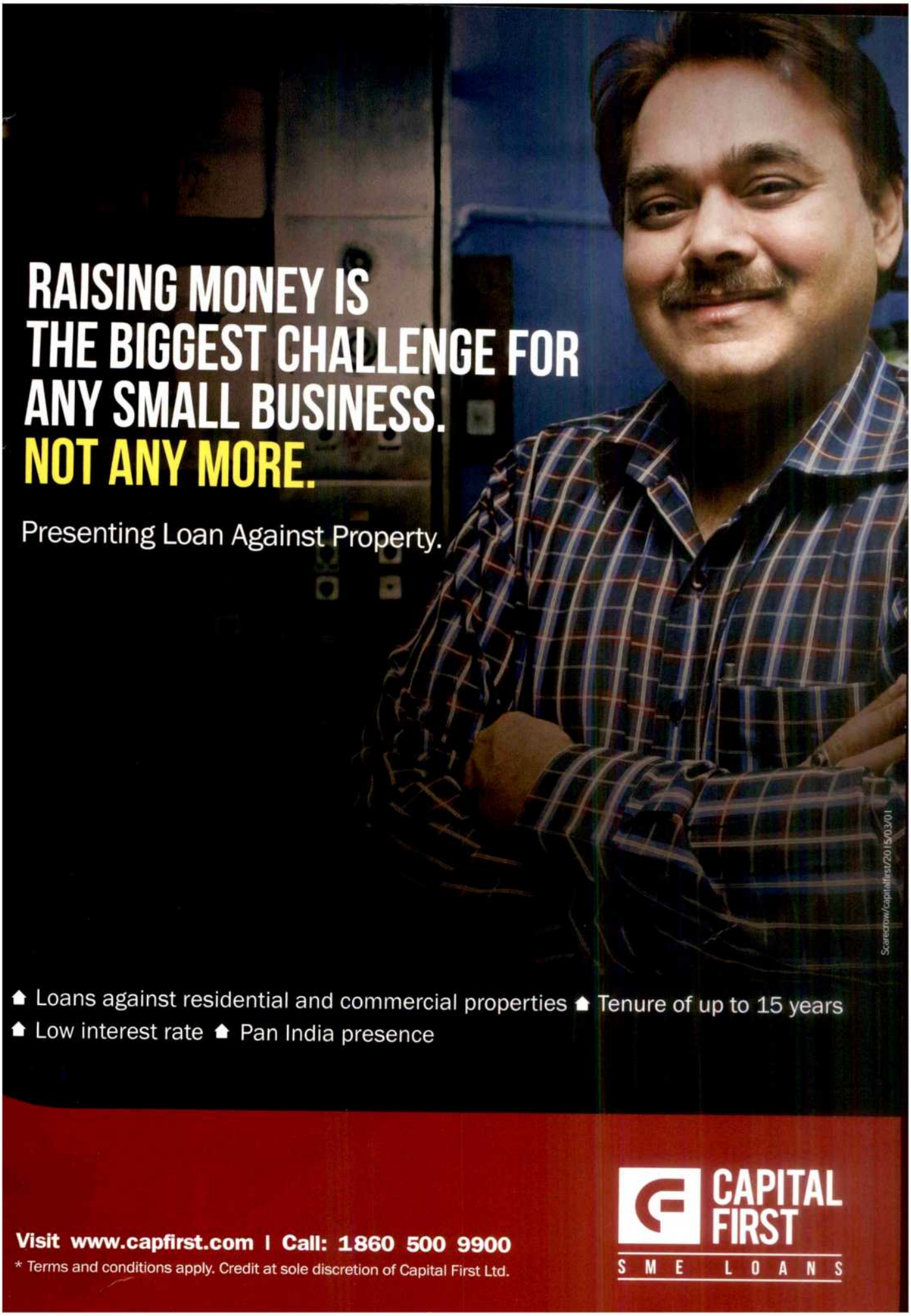
During the UPA time, they let the entrepreneurs decide. We identified the opportunity based on numbers. So, if 25 lakh people were going to be skilled, and of that nine lakh were in banking, we would go for banking because there was a good chance of getting the numbers. This government has done a Skills Gap study. It has looked at regions to find out what skills are needed and mapped them. But, I think skills gap is a myth because, when 200 million people have to be skilled, we need skills in every area.

Educate India or Skill India, which is better?

The need for education and skills has a convergence point. Education is conceptual learning, to be used for strategic outputs in life. Skills is tactical knowledge to implement specific works. In 2012, I took a bet that Eduskills is going to be India's mainstay in three to five years. This government has come out with the National Skills Qualification Framework, which is nothing but eduskills. So they are saying 1,000 hours of the skill of day, and 600 hours of management, put together and align it to the NSQF and what you get is the new MBA. By doing this what they are doing is they are putting far more numbers in the qualified framework.

Is the Pradhan Mantri Kaushal Vikas Yojana old wine in a new bottle?

This scheme is stronger on implementation norms. It is creating an ecosystem of governance and delivery to ensure high-quality training is given. ◆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General Motors CEO Mary Barra
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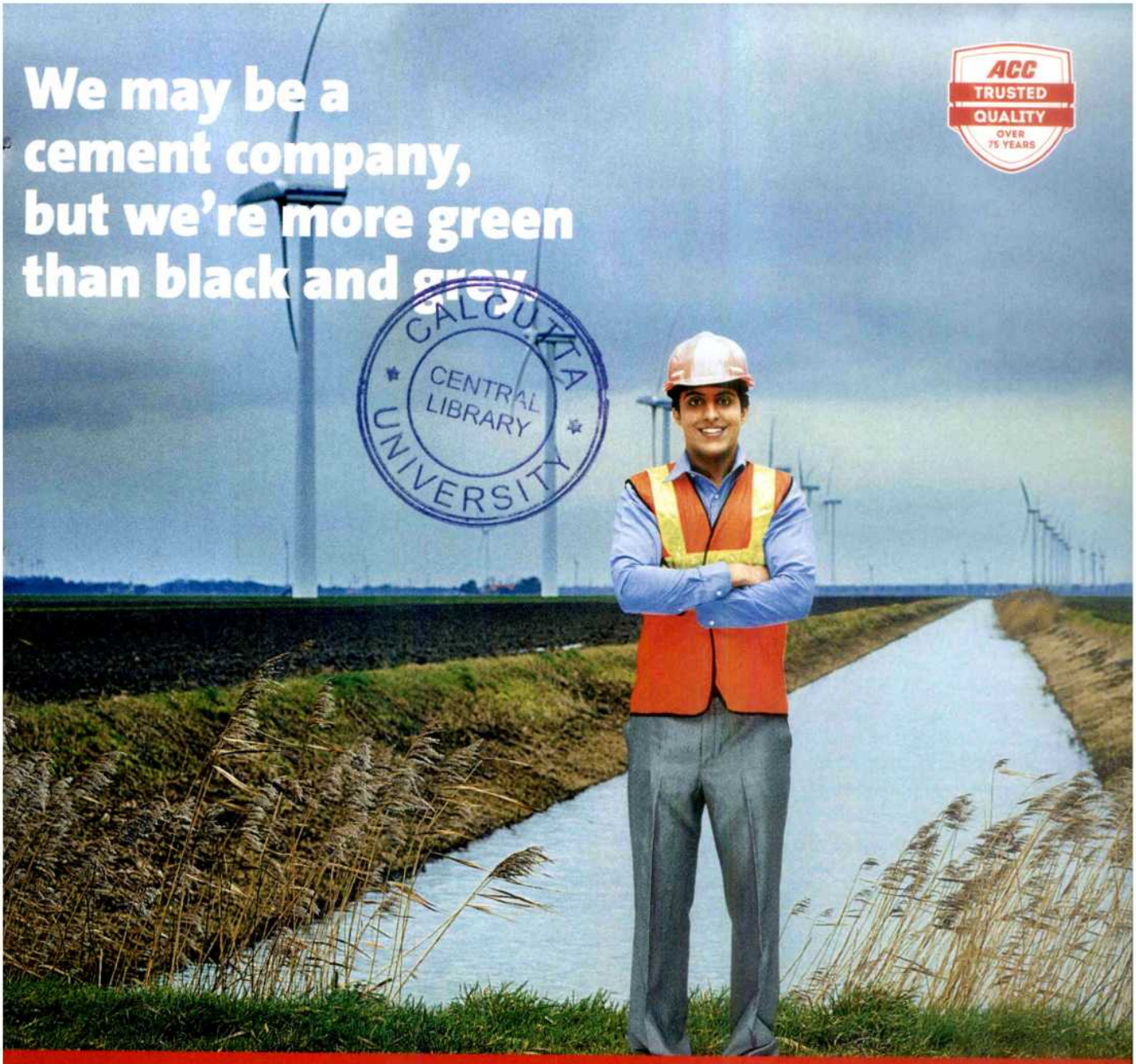

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From the Editor

The Taxicab Business

For about five and a half decades, the taxi business in India followed a fairly simple structure. There were taxi stands in different areas in the cities, and independent licensed cabs operated out of those. There were some small entrepreneurs who would own three or five cabs, and hire drivers. There was also a minuscule segment at the top end – mostly operating through tie-ups with big hotels. These were operators that bought premium cars and catered to high-end business travellers.

Sometime in the first decade of this century, the first innovation in the market took place. Some entrepreneurs took radio cab licenses, bought cabs and started services in big cities. The services were called EasyCabs, Mega Cabs, Meru Cabs, etc. Barring Meru, they were not very big in scale. Meru, with funding from venture capitalists, became the undisputed leader. Today, it has a fleet of 6,000 owned cars and another 14,000 aggregated cars. The radio cabs charged marginally more than the old yellow and blacks, but they offered better, branded cars with proper air conditioning, uniform pricing, equipped with GPS systems, and the guarantee of a certain reliability.

In 2010, Ola Cabs came into being, following a very different model. While Ola Cabs had a centralised call centre through which customers could book a taxi, it focused more on its mobile app, which took the convenience of booking a cab to a whole different level. It also followed a pure aggregator model, instead of buying its own cabs á la the radio operators. Also, after raising a huge amount of money from venture capitalists, it began discounting heavily. If radio cabs were charging in the vicinity of ₹20 per kilometre, Ola was offering rides at half that price. Despite charging low prices, they also provided special incentives to drivers to join hands with them.

In 2011, TaxiForSure was born, following much the same model as Ola, but as it managed to secure fewer backers, it fell far behind and a few months ago, Ola bought it lock, stock and barrel.

Meanwhile, in 2013, Uber, which had been making waves in the US, decided to set up shop in India as well.

As things stand now, Ola, with TaxiForSure, is the clear market leader and some estimates say it has over 80 per cent market share in terms of registered vehicles. Meru is number two. Uber, though still small in India, has just announced that it plans to spend over a billion dollars in the country over the next nine months. Reports say that Ola has embarked on a fresh round of fund raising, too. The radio cab operators have been forced to follow the aggregation model, too.

Like other e-commerce start-ups, Ola and Uber are burning cash and they have no immediate plans to turn profitable either. They are chasing market share.

But why is everyone so interested in what is still a money-losing venture? That's because the pot of gold at the end of the rainbow is huge. Estimates put the current total taxi market in the country to be around $14 billion in size (the organised bit is barely $800 million or so), and it is growing at over 20 per cent per annum. So the potential for growth is huge – and also the main reason so many investors are plunking down so much of cash.

Our cover story this issue looks at the great taxi war playing out. Also, don't miss out the fascinating story of how Ajay Singh is turning around SpiceJet. That is on page 26.

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Indian CEOs Not Overpaid

This refers to your cover story on Indian CEO salaries (*Are Indian CEOs Overpaid?*, August 16). The workplace is becoming increasingly dynamic as the war for talent heats up. It is no longer surprising when we get to know about quality talent being poached by companies with deep pockets and the sheer desire to outperform competition. It is no state secret that Indians are in high demand in the global job market due to their abilities. And with many Indian firms going global, the challenges of hiring and retaining talent have increased manifold. One thing that many of us fail to realise is that although the glass cubicle and million-dollar compensation look very appealing on the surface, the package comes with its own set of restrictions and challenges. One needs to remember that it is always the fittest who survives and takes away the prize. Also, rich people all over the world have started recognising the importance of creating equitable societies and are donating portions of their wealth, thus giving back to the society in their own small ways, like Warren Buffett, Bill Gates, Kris Gopalakrishnan, and many others. It is time to put this debate to rest. Indian CEOs are not overpaid. They are just adequately compensated.

Gaurav Gupta, *Pune*

Net Neutrality

This refers to your article on Net neutrality (*Tough Times Ahead*, August 16). Internet.org and the introduction of Airtel Zero have put the topic of Net neutrality at the centre of a healthy debate in India. In spite of the fact that it looks okay to DoT and TRAI, there is actually a doubt in users' minds who want to access the web without the telecom service provider getting to serve some sites faster than others. While telecom companies do not like the way apps are running on their networks for free, it's great for start-ups as they can come up with an app today and immediately attract a global audience.

Ankur Chopra, *On e-mail*

Indo-Iran Trade

This refers to your article on India's trade with Iran (*A Passage to Iran*, August 16). The article highlighted avenues for fruitful cooperation between India and Iran in the aftermath of the latter's nuclear deal with western powers for stalling nuclear proliferation and subsequent lifting of economic sanctions. It is time for India to forge a lasting association with Iran, as in the past, for mutual development. The Centre must make a list of probable treaties and business initiatives to get a focused and comprehensive platform to clinch the deals affirmatively. India must try to claim a special status from Iran in preference to China and Russia to create a level-playing ground. India should install refineries in Iran on a joint-venture basis. It must also help Iran develop Chabahar port on a war footing. This would help stabilise India's presence in Afghanistan as Chabahar is commercially and geopolitically a nodal point.

B. Rajasekaran, *Bangalore*

Clarification

This refers to Jay Parikh's column *SEBI and Its (Over)reach* (July 19). In the said column, it has been mentioned that *"In either case, the suspension of trading does affect legitimate trades and due to the lack of clarity on the transaction this seems to be a premature step by the regulator."* In this regard, SEBI has clarified that trading in the scrip of Surana Solar was not suspended. Based on certain surveillance inputs, *prima facie* examinations in the scrip of Surana Solar were carried out, and as a proactive surveillance measure, the payouts pertaining to the scrip for two settlements were withheld. In due course, the payouts were released.

N. Hariharan, *CGM, SEBI, Mumbai*

Correction

Dilip Shanghvi's designation in photo caption (*Merger Pangs*, page 19, August 16 issue) is going as Chairman of Sun Pharma. It should be founder and managing director. The error is regretted.

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AUGUST/30/2015
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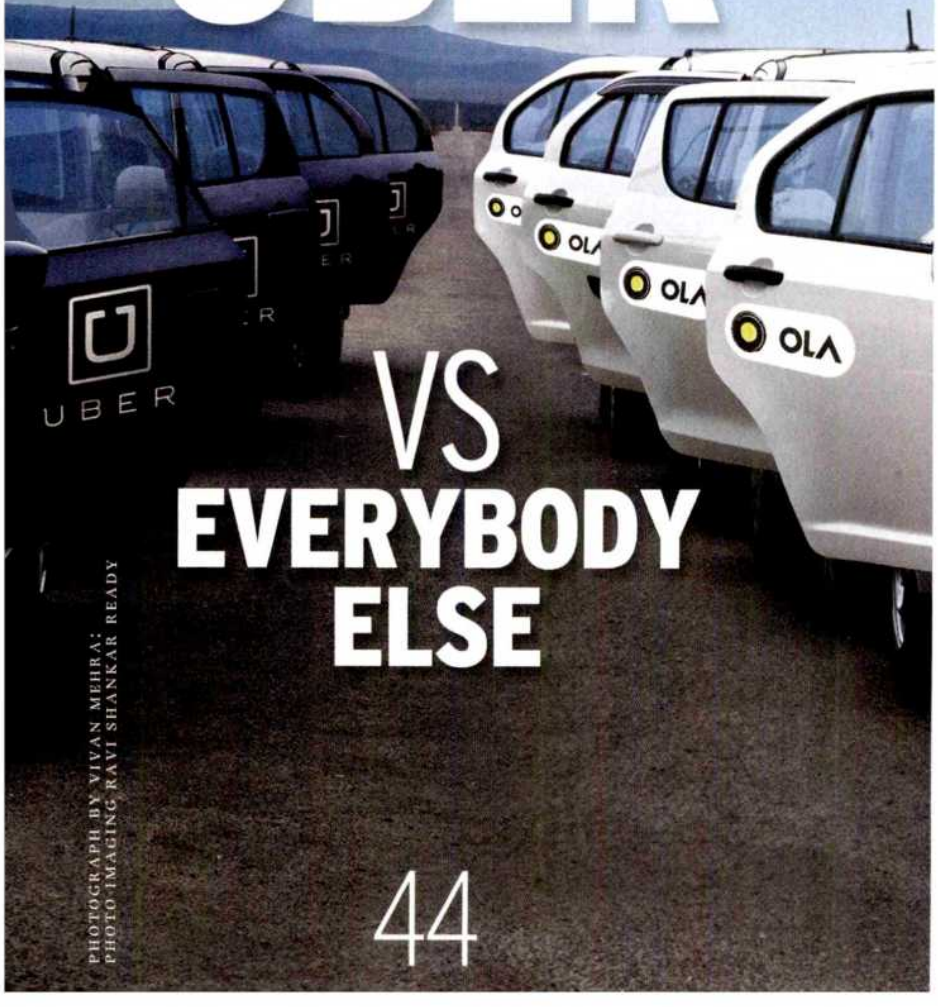

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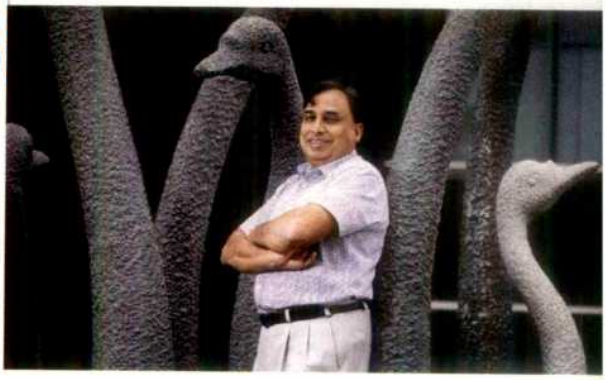

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RAJ VERMA

IN TOP GEAR

Jeremy Clarkson, who had generated both controversy and profits for the BBC, is back. The sacked BBC *Top Gear* host, with co-presenters Richard and James, has signed a £160 million deal with Amazon to present a new motoring show, reports Reuters. Amazon said the new show will be available on its subscription streaming service Amazon Prime next year (2016) and run for three seasons. The *Top Gear* show aired in more than 200 countries and was watched by 350 million viewers worldwide.

SONY

BACK IN INDIA

Sony Corp is back in the country, thanks to the Make in India initiative, after a decade. The Japanese company will soon start manufacturing its Bravia line of television sets here. Sony India sales touched ₹10,600 crore in 2014/15.

5.04 MILLION

Volkswagen's worldwide sales in the first six months of 2015. The German carmaker benefitted as car demand in Europe accelerated at the fastest pace in five-and-a-half years, softening the blow from a slowdown in China.

5.02 MILLION

Toyota's vehicles sales in the same period.

ONE HOUR

A trip from London to New York in Airbus' just patented hypersonic jet with speeds as high as Mach 4.5, or four-and-a-half times the speed of sound

THREE-AND-A-HALF HOURS

Time taken by the now retired Mach 2 Concorde, a joint venture between Airbus' two predecessors – France's Aérospatiale and British Aerospace – for the same trip.

SEVEN TO EIGHT HOURS

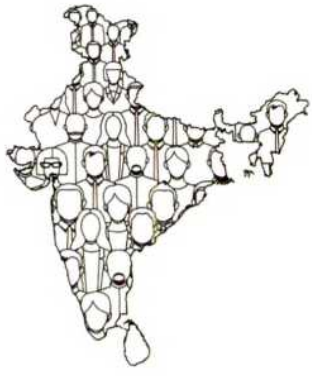
Time taken to make the same journey by a conventional airliner, such as Airbus' own A330, to cross the Atlantic.

1.5 BILLION

Projected Indian population in 2030, according to a UN report. There will be more Indians than Chinese by 2020 when both the Asian giants will have 1.4 billion each.

7.349 BILLION

The world's current population, which is set to reach 9.725 billion by 2050.



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RAJ VERMA

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MODI REPORT

WHAT: Report card by ministries and departments
WHEN: By August 15

WHAT TO LOOK FOR: The Prime Minister's Office has written to all ministries and the NITI Aayog to furnish details of progress on the commitments made last year. They have been asked to identify five major activities, explaining in not more than 250 words each, on how these could make a difference to the lives of the people. Some of the key announcements by Prime Minister Narendra Modi last year on the 68th Independence Day included the Pradhan Mantri Jan-Dhan Yojana, the Skill India Mission, the Make in India initiative, the Digital India drive, the Clean India Mission and the Sansad Adarsh Gram Yojana. Modi's second speech from Delhi's Red Fort on August 15 is likely to focus on the initiatives and achievements of his government over the past year and what lies ahead.

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GOOGLE CHALLENGE

WHAT: EU anti-trust charges against Google
WHEN: August 17

WHAT TO LOOK FOR: Google is facing charges of abusing its market power – allegedly distorting search results to favour its shopping service, hurting both rivals and consumers – in a dozen EU countries. It is trying to stave off a possible €1 billion fine and has until August 17 to respond.

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BAN ON DRUGS

WHAT: EU-wide ban on 700 generic drugs
WHEN: August 21

WHAT TO LOOK FOR: The European Union-wide ban on the sale of 700 generic drugs that underwent clinical studies at Hyderabad-based GVK Biosciences' facility will kick in from August 21. Eight Indian companies including Dr Reddy's and Lupin have been impacted, apart from a few global majors like Mylan that source from India. These medicines can no longer be distributed or sold by drug companies, wholesale dealers, drug stores and other outlets in the EU. The French regulatory agency ANSM had in its May 2014 audit found evidence of data manipulation of electrocardiograms of people linked to the studies on some of these generic medicines.

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BANDHAN BEGINNING

WHAT: Bandhan Bank launch
WHEN: August 23

WHAT TO LOOK FOR: Kolkata-based Bandhan Financial Services Pvt Ltd will start full-fledged commercial banking operations on August 23. Bandhan will merge the microfinance institution business with the bank, as per RBI requirements, but it will carry on its micro-loan activities through its existing 2,022 low-cost service outlets. The commercial bank will start operations with 600 branches. Bandhan's Chairman and Managing Director Chandra Shekhar Ghosh said.

August 5, 2015

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IFC, a member of the World Bank Group, has invested
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- In February 2015, YES BANK had also issued India's 1st Green Infrastructure Domestic Bonds raising ₹ 1000 Crore (including ₹ 500 Crore Green Shoe)
- YES BANK was the 1st Bank in India to make a commitment of funding 5000 MW of Renewable Energy projects by 2020
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RAJ VERMA

Your Cake, Your Way

India Inc.'s generous serving of dividends, despite dismal earnings growth, feeds its own needs. By JYOTINDRA DUBEY

₹11,400 cr

Amount earned by TCS promoter Tata Sons through dividends in 2014/15

Dividend payout is a crucial indicator for investors while selecting stocks. A company with a regular dividend payment history shows it is making profits. If the company decides to pay higher dividend, it should mean that profits have also increased. But, recent data show otherwise. India Inc. has been very kind in distributing profits to their investors, but there is huge inconsistency between their profit and dividend payout growth.

Equity dividend payout of BSE 500 companies between 2009/10 and 2013/14 rose at 15.3 per cent compound annual growth rate (CAGR), while their net profit increased by only 8.2 per cent CAGR. Sample this: Out of the 715 companies that have released their annual reports for 2014/15, dividend payout witnessed a 19 per cent growth, while net profits was just at 4 per cent. Around 18 per cent of these companies have increased their dividends

THE FAB FOUR

Companies adding to India Inc.'s aggregate dividends in 2014/15	MAR-14	MAR-15		MAR-14	MAR-15	
Company Name	Equity dividend	Equity dividend	% Increase	Profit after tax	Profit after tax	% Increase
Tata Consultancy Services	6,267.3	15,473.9	**146.9**	19,331.9	20,059.7	**3.8**
Infosys	3,618.0	5,111.0	**41.3**	10,648.0	12,330.0	**15.8**
Bharti Infratel	831.3	2,081.8	**150.4**	1,517.9	1,992.4	**31.3**
Wipro	1,973.6	2,963.6	**50.2**	7,840.5	8,705.9	**11.0**

Source: CMIE Prowess; Figures in ₹ crore, unless otherwise stated

payout ratio in 2014/15 despite witnessing a negative growth in their bottom-line.

This puts a big question mark on the policies of corporate India and the rationale behind increasing dividends. "One of the major reasons behind rising dividend payouts is weak business sentiment and lack of investible opportunities. So, companies, which are sitting on cash, have preferred to distribute the surplus," says Amit Tandon, Managing Director, Institutional Investor Advisory Services (IiAS)

The bulk of growth in dividend payouts in 2014/15 came from TCS, Infosys, Bharti Infratel and Wipro. TCS paid ₹15,474 crore to shareholders, two-and-half times more than last fiscal. A special dividend of ₹40 per share to celebrate its tenth year of stock market listing, made the difference. Wipro's and Bharti Infratel's dividend payout were up 50 per cent and 150 per cent, respectively. Apart from Bharti Infratel, whose bottom-line grew 31 per cent in 2014/15, all others showed marginal growth in profits. TCS, which emerged as India's highest dividend payer in 2014/15 even with its net profit growing just 4 per cent year-on-year, also surpassed Coal India, the highest dividend payer traditionally.

Dividend announcements also have an impact on stock prices – a major factor behind the stock market performing well, regardless of the poor corporate results. As on August 6, the Sensex gained 5,728 points, up 25.6 per cent from its March 2014 levels. Dividends paid add up to the shareholders' return, over and above the capital gains they earn through share price movements.

"Dividend payout is a distribution of value to investors unlike earnings growth, profitability and cash flows, which are considered to be value creators. Investors attach more importance to value creation in their investment decisions. That said, dividend payout does act as a cushion to valuations and profitable companies, which generate free cash flow from operations (FCFO) and pay dividends, are considered good investment bets. However, low ROCE, high dividend companies with negative FCFO and leverage may not necessarily be good bets," said Ravi Sundar Muthukrishnan, Co-Head Research, ICICI Securities.

Dividend income, however, does not add much to the profits of small investors. But, promoters and large investors make considerable wealth from the bounty. Interestingly, all major dividend payers herein, are promoter-led companies. Tata Sons, the promoter of TCS, owns 73.7 per cent shares and has earned around ₹11,400 crore through dividends. Most of this money will be reinvested in other Tata Group companies, such as Tata Steel, which are struggling to get back on track.

Another major contributor to the spurt in India Inc.'s dividend payouts is public sector units and the reason is evident: As the government of India is a majority shareholder, it is directly benefitting from liberal dividend payouts by PSUs. "The fiscal deficit pressure has resulted in PSUs steadily increasing dividends and this is reflected in the increase in aggregate dividend payouts of India Inc," says Tandon.

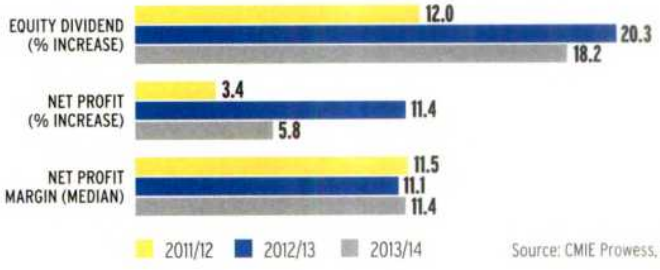
Coal India paid dividends of ₹13,075 crore in 2014/15, followed by ₹8,128 crore by ONGC. Both companies had reported a dip in profits last fiscal.

While the regulations in India do not mandate companies to state a clear dividend policy, the disconnect between dividend payout and profit builds a strong case for a transparent mechanism in declaring dividends. "The regulator must encourage companies to declare a clear dividend policy in the company's annual filings. Companies must also spell out the minimum dividend they will pay as a percentage of its earnings, and this should also be placed before the shareholders' for ratification," adds Tandon. ◆

@JyotindraDubey

PERFORMANCE IS NO PROOF

There is a huge gap between dividend payout and profit growth



Source: CMIE Prowess, BSE

AJAY THAKURI

Tread with Caution

Investors must think twice before putting money in small- and mid-cap stocks as these have surged even though the main indices are going nowhere. By MAHESH NAYAK

SOME EXPERTS EVEN GO SO FAR AS TO SAY THAT MID- AND SMALL-CAP STOCKS ARE CLOSE TO ENTERING THE EUPHORIC TERRITORY.

The extremely bullish view of 2014, when India's stock markets delivered returns of 30 per cent, is slowly giving way to a quiet realism.

The biggest reason is that India Inc.'s profits remain well below expectations. In spite of this, investors, in search of higher returns, have pushed up stock prices – especially of mid- and small-cap companies – far above what can be justified by earnings. Some experts even go so far as to say that mid- and small-cap stocks are close to entering the euphoric territory. There is also a fear that foreign institutional investors, or FIIs, will take out money from emerging markets, including India, to invest in US markets when the Fed increases rates later this year.

"Everyone is cautious ahead of the increase

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in US rates," says Sonal Varma, Executive Director-India Economist at Nomura Financial Advisory & Securities, who last week visited Asian countries to meet clients that invest in emerging markets.

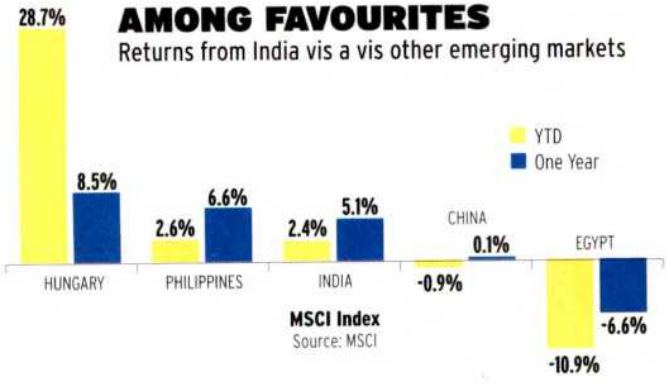
"Investors aren't bearish as such but delay in clearance to the Goods and Services Tax and land bills and disappointing corporate performance have made FIIs stay away from Indian equities," she says (See *Waning Interest*).

"There is no urgency to invest as this market isn't going anywhere in a hurry," says Mugunthan Siva, Managing Director of India Avenue, an Australia-based fund focused on Indian equities. "The next six months will be a clear wait and watch. Cash is king in the medium term," he says.

Indian fund managers mirror the view. "The Indian market isn't a runaway market, but whenever it goes down, I will be a buyer, and vice versa," says S. Naren, CIO at ICICI Prudential Mutual Fund, India's second-largest fund house after HDFC Mutual Fund.

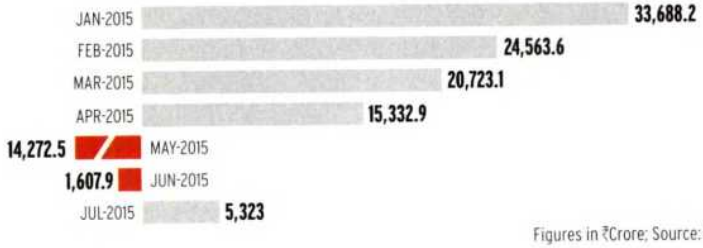
AMONG FAVOURITES

Returns from India vis a vis other emerging markets



WANING INTEREST

FIIs' net investment in Indian equities is falling



Figures in ₹Crore; Source: Sebi

AROUND $150 BILLION IS INVESTED IN GOLD AND REAL ESTATE EVERY YEAR. EXPERTS SAY 10-15 PER CENT OF THIS MAY FLOW INTO EQUITIES

Pain Point

High valuations of stocks in India are clear from the performance of BSE Mid-Cap (up 27 per cent in one year to July 31) and BSE Small-Cap (up 17 per cent) indices. Both have been touching new highs in the last few days and are showing no signs of abating. The BSE Sensex has risen just 5.5 per cent in the last one year.

One reason for investor interest in smaller stocks is that many large-caps have become highly priced on an absolute basis. For instance, the MRF stock has risen 70 per cent to ₹41,000 in the last one year. Just because one has to invest as much as ₹41,000 to buy one share of MRF, many investors turned to alternatives such as TVS Srichakra, a small-cap tyre stock that has risen three times to ₹2,600 during the period. Similarly, Force Motors has risen three times (226 per cent) compared to 55 per cent rise in the Maruti Suzuki stock. Shreyas Shipping is up 16 times (1,524 per cent) compared to 7.5 per cent rise in the Shipping Corporation of India shares.

Manish Bhandari, Managing Director at Vallum Capital, an investment advisory based in Mumbai, says speculation is fuelling the rally in small-caps, but mid-caps are rising due to re-rating of their price-to-earnings multiples and change in ownership.

Though a short correction is likely, the trend of money, both domestic and foreign, entering Indian equities will continue. "Money is moving out of gold and real estate, as these have underperformed, into financial assets," says Nilesh Shah, CEO and Managing Director, Kotak Mutual Fund.

Around $150 billion is invested in gold and real estate every year. Experts estimate that 10-15 per cent of this is expected to flow into equity markets. In the first three months of 2015, inflows into equity mutual funds were ₹32,255 crore, three times more than the ₹9,968 crore in the same period last year. "Money is entering assets that have done well. Mid-cap stocks have given impressive returns in the past two years," says Vallum Capital's Bhandari. It is estimated that 30-35 per cent money allocated for equities is finding its way into mid-caps. He says another reason for the interest in mid-caps is the subdued performance of large-caps. "It's difficult to say that the mid-cap space is euphoric. It can correct from here, but that will be a technical correction. One can't compare today's situation to 2008. Back then, the global economy was on the verge of a crash and today it is on a recovery path. Everything, however, boils downs to the performance of companies," he says.

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THE BIG MOVE

Small- and mid-cap stocks are on fire

	Mid-caps	Small-Caps
NUMBER OF STOCKS	78	584
BEAT BENCHMARK	34	227
UNDERPERFORMED THE BENCHMARK	44	357
INDEX RETURNS IN ONE YEAR	27%	17%
STOCKS THAT DOUBLED	4	47

Data for one year to July 31; Source: ACE Equity

Out of 609-odd companies with a market cap of ₹4,000 crore and less, 225 have beaten the BSE Mid-Cap index. Of these, 76 have doubled in the last one year. Around 25 have risen between three times and 16 times.

Investors are also taking heart from the fact that the market is not expected to see a sharp fall from here. "The downside is capped. It can fall 15 per cent, but if you have to be in equities, you should have the stomach to digest such dips," says Siva of India Avenue.

That is why even long-term investors are becoming active at mid-cap and small-cap counters. "It's not just traders and speculators, even some mutual funds have been active in the mid- and small-cap space. This is a cause for concern as these companies are becoming more expensive than their large-cap peers," says Shah of Kotak, adding that there's a risk if these companies do not deliver according to expectations.

Half Full or Half Empty?

What about the long term? "India's economy bottomed out last year, but revival will be slow and gradual. India is a great place to invest," says Naren of ICICI Prudential. "Whenever I look at a country for investment, I take five parameters – fiscal deficit, current account deficit, inflation, GDP growth and credit growth. In all these areas, India's macros are top class." To top it up, crash in prices of commodities, especially crude oil, will lead to huge savings of $50 billion for India. The only big factor weighing heavily on markets is the huge debt on books of infrastructure and real estate companies, which is one reason for tepid investment activity and job creation.

"I worry only about infrastructure companies that have not been able to deleverage. Similarly, residential real estate is so expensive that the sector will not get deleveraged soon. I am worried about these two sectors," says Naren. "Corporate performance may revive once infrastructure and real estate companies get deleveraged. The huge amount stuck in infrastructure and real estate sectors is the real worry. Things that can change this situation are reduction in interest rates, fall in prices of real estate or increase in wages."

Interest rates, it seems, are the key. "There is no incentive for companies to invest. The return on equity of India Inc is near its all-time low. For companies to invest, interest rates have to come down or consumption has to rise. Until the corporate performance improves, equity markets will not see a big upmove," says Shah of Kotak Mutual Fund.

"If India is short on execution, investors will start looking for alternatives. If earnings continue to disappoint and inflation is sticky, it is likely that investors will pull out," says Siva of India Avenue.

The future will also be dictated by foreign fund flows and global developments. This means investors should expect volatility. "Lack of triggers may see the Sensex move in a range of 26,500 to 28,500. For it to cross 30,000, corporate performance has to fire," says Siva. ◆

@maheshnayak

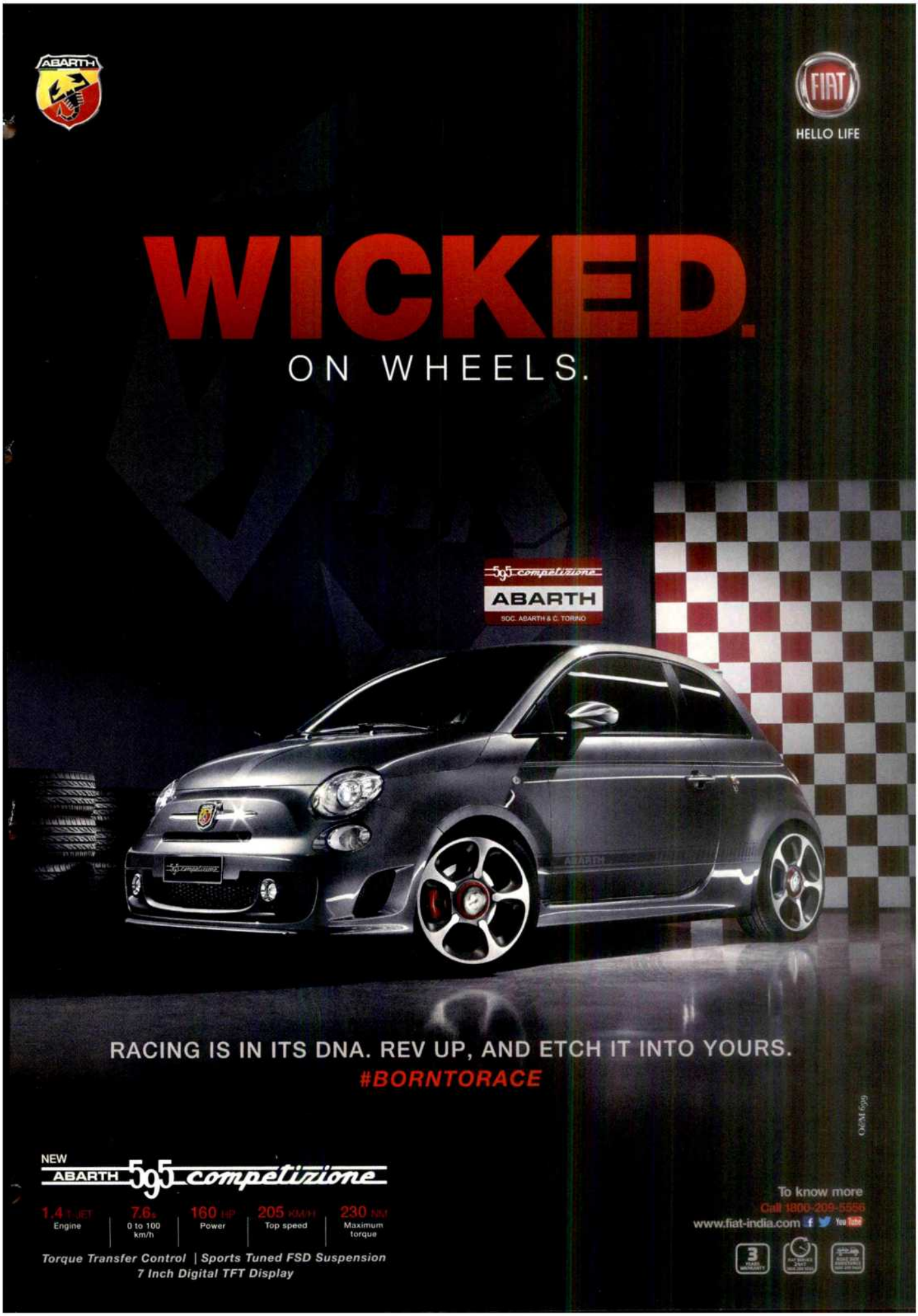
THE FUTURE WILL BE DICTATED BY FOREIGN FUND FLOWS AND GLOBAL DEVELOPMENTS. THIS MEANS INVESTORS SHOULD EXPECT VOLATILITY AND MOVE WITH CAUTION

WHAT CAN GO WRONG FOR INDIAN EQUITIES

a) China credit bubble
b) Rise in US interest rates
c) Spike in inflation
d) High fiscal deficit
e) Strengthening of US dollar/ weakening of rupee
f) Default by a commodity exporter country

WHAT CAN GO IN FAVOUR OF INDIAN EQUITIES

a) Deleveraging of infrastructure and real estate companies
b) Cut in domestic interest rates
c) Rise in credit off-take
d) Improvement in corporate performance
e) Rise in consumption and income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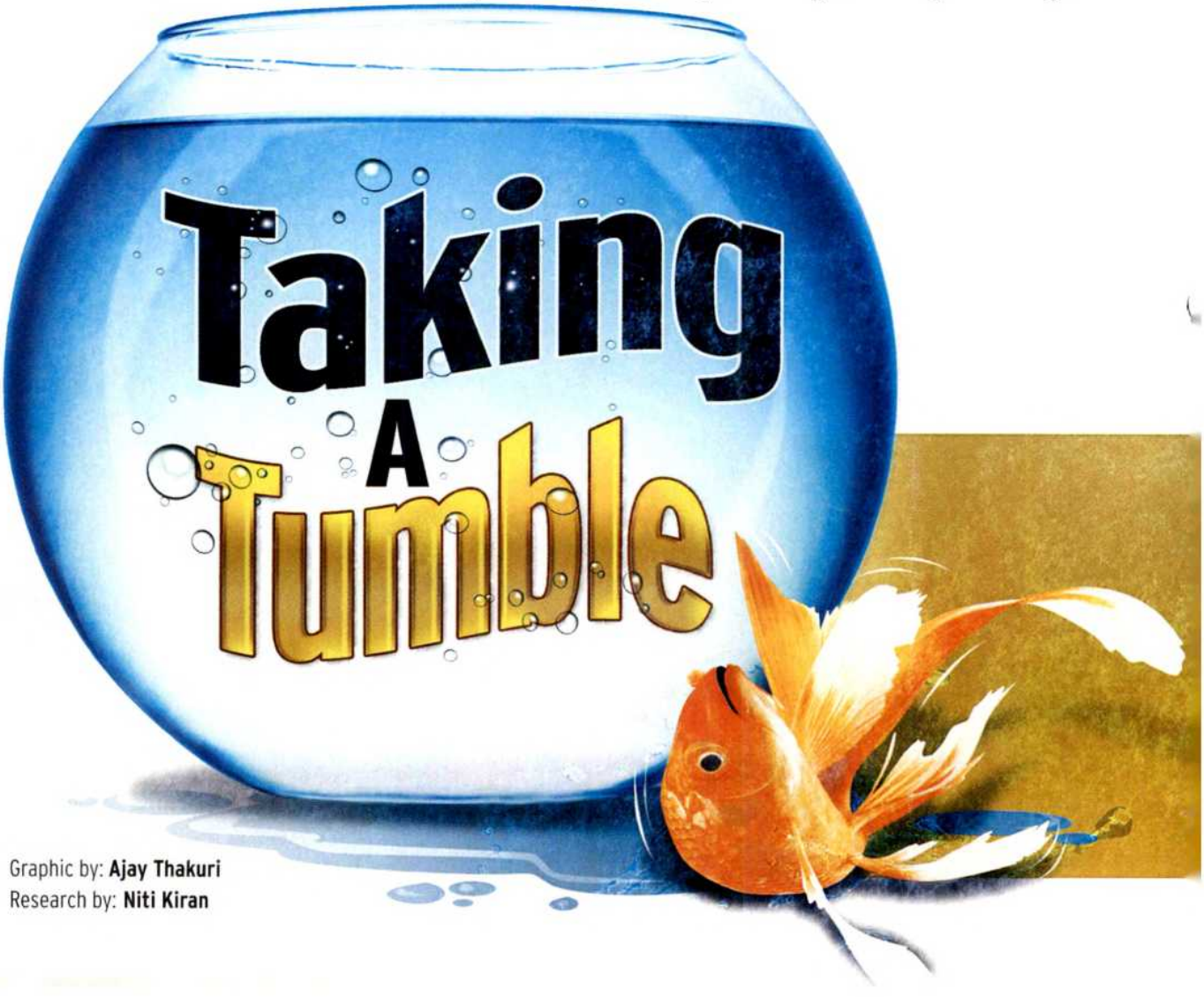
Taking A Tumble

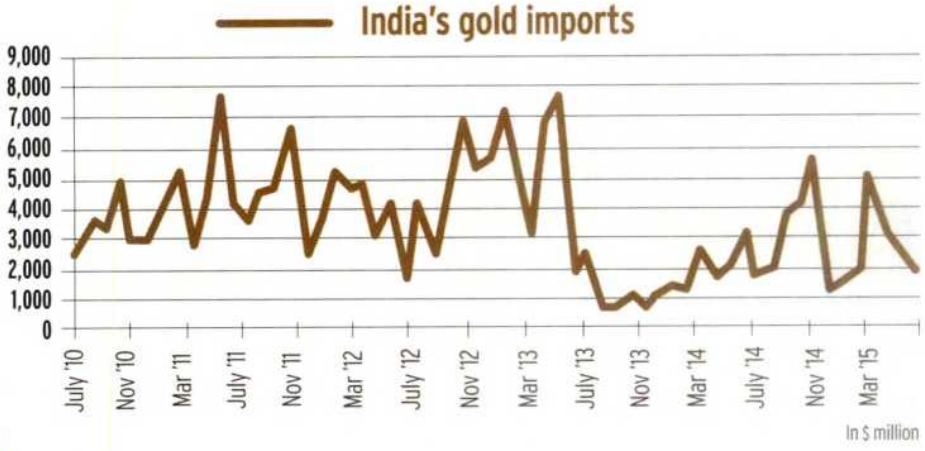
The yellow metal is fast losing its sparkle. Gold prices have plunged to a five-year low, slipping below $1,100 per ounce. A strong dollar has reduced gold's allure as a safe haven. The likely hike in rates by the US Federal Reserve could keep prices down. Indeed, gold could slide further before returning to fair values

1 International gold prices have plummeted almost 33 per cent since 2011 and are expected to continue their downward journey for a while



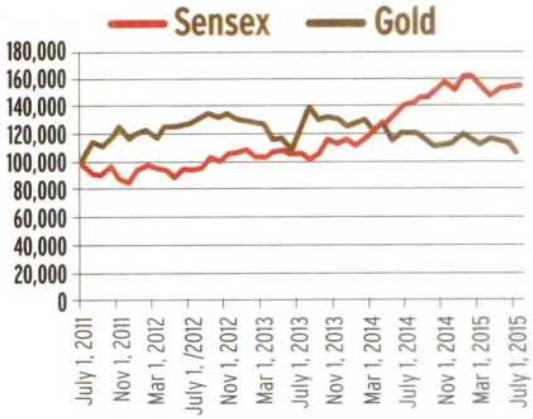
Graphic by: **Ajay Thakuri**
Research by: **Niti Kiran**

2 Indian gold imports in June dipped around 37 per cent year-on-year to $1.96 billion



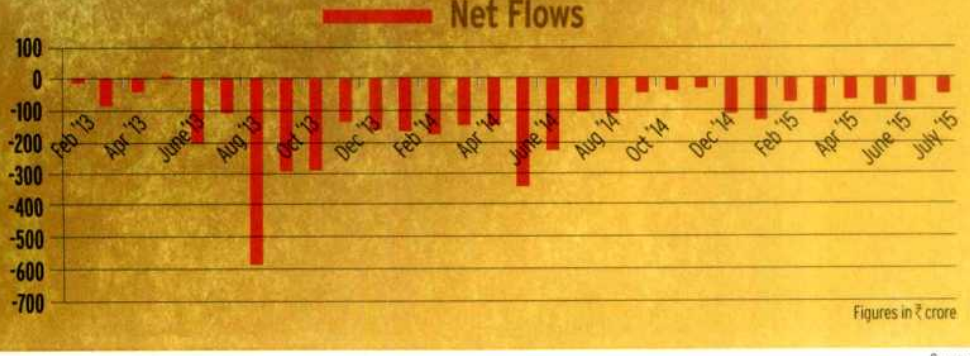
3 The dollar has strengthened against most currencies. A strong dollar checks safe-haven buying in the yellow metal

4 Indeed, gold has given annualised returns of just around 2 per cent since July 2011. The figure is 11 per cent for the Sensex in the same period



Figures show how an investment of ₹1 lakh in Sensex and gold has fared since July 2011

5 Gold exchange-traded funds, a fast-growing asset class earlier, are now falling out of favour and have witnessed 25 months of continuous fund outflows



Figures in ₹ crore

Sources: World Gold Council, AMFI, CMIE

RAJ VERMA

WHAT'S TRENDING

A Minus for Google+

After persisting with its social network attempt Google+ for years, the search giant is now finally backtracking.

By **CHITRA NARAYANAN**

Even giants have Achilles heels. Google's is social. Try as it might, the search giant that lords over the Internet world has just not managed to crack the social code. From Orkut to Google+, it has been one long journey of experiments and failures. Last fortnight, when it officially delinked Google+ from YouTube, the world began writing obituaries to the five-year-old social network that never really took off.

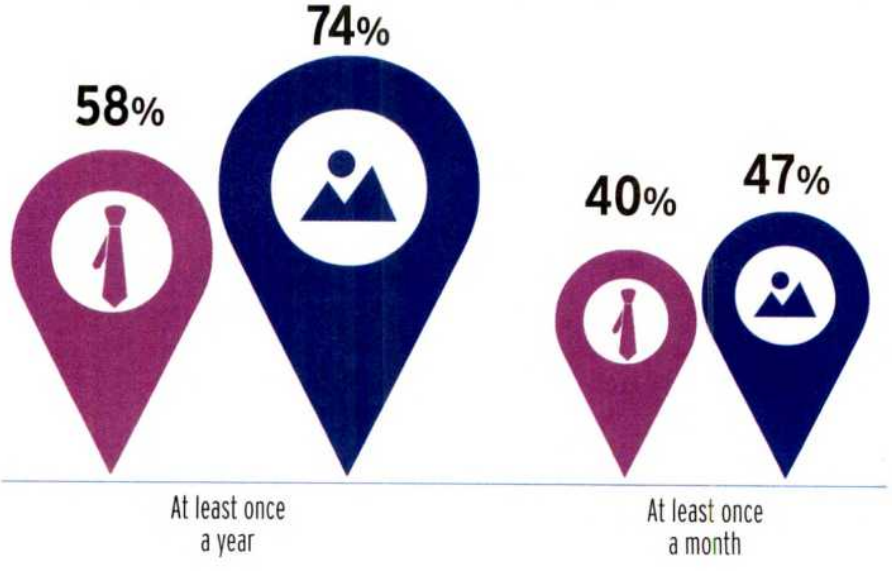
So is Google going to now say minus to its Google+?

All the signs point that way. Slowly and steadily Google has been delinking compulsory Google+ linking from many of its other products. In the past it had tried to force the product on users of YouTube and other services. In 2013, it had started Google+ comments on YouTube videos linking the two much to the annoyance of users. But now in a surprise development, it has decided to cut that link and has

DIGITAL DASHBOARD

DISRUPTING BUSINESS TRAVEL NEXT?

Following a year-long trial in the US, Airbnb recently announced a global expansion for its Business Travel Program. And new data suggests the new venture by the San Francisco-based website for people to rent out lodging, does have global appeal



posted a detailed guide on how users can delink their accounts.

There have been a series of other moves too that show that Google is now no longer going to bank so much on Google+. Take the way it had delinked Hangouts and Photos from Google+. In a blog post, Bradley Horowitz, the Google Vice President who took charge of the social network, says: "We will also move some features that are not essential to an interest based social experience out of Google+. For example, many elements of Google+Photos have been moved into the new Google Photos app. And we are well underway to putting location sharing into Hangouts and other apps, where it really belongs."

The fact that Google has started tinkering so much with Google+ has led to increased speculation that the search giant is setting the stage to kill the product.

Google's social experiments have been many. There was Orkut launched in 2004 – around the same time that Facebook started. And though Orkut had a significant following in India and Brazil, Google finally had to kill it in 2014 as the network just did not have the muscle. Then there was Reader, launched in 2005, which was killed in 2013. Wave and Buzz were other social experiments that failed. Finally in 2010, at the behest of its social architect Vic Gundotra, Google threw its weight behind the Google+ experiment.

Five years later, the numbers show that despite the powerful advantage of a linked Gmail Account, Google+ remains an empty platform – the influencers throng Facebook (FB), Twitter, Instagram and LinkedIn. While FB has more than 1.4 billion monthly active users, Google+ has just around 400 million or so monthly active users. While the others were rather quick in their mobile integration, Google+ fell behind.

Even as there have been acquisition rumours – will Google buy Twitter is a favourite discussion topic – Google itself seems averse to self-destruct its baby as yet. Horowitz says that Google+ will now focus on connecting users around specific interests. Interestingly, the Google+ team has been renamed as Streams, Photos and Sharing. Through photo sharing it will still keep a foothold in social media. But is that enough? Let's see if a second version will come out of the Google labs or Google+ will die a slow death. ◆

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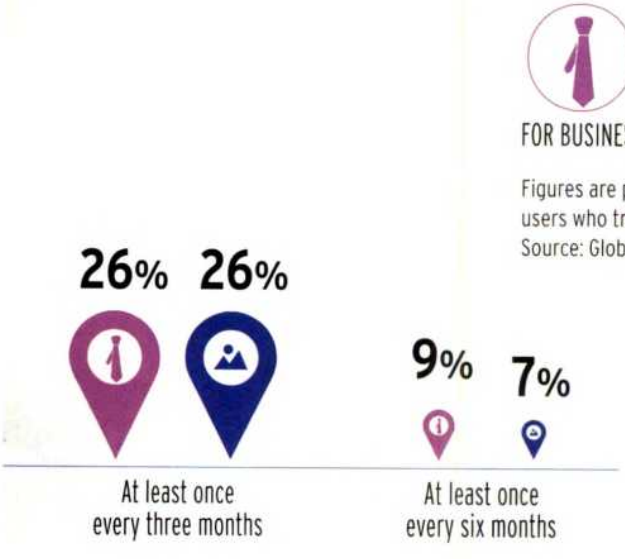


Figures are percentage of Airbnb users who travel abroad
Source: GlobalWebIndex

LISTENING POST

Video Gaga

Meerkat and Twitter's Periscope now have company with Facebook Live going, well, live! Launched on August 5, the new video streaming service from the world's largest social network allows celebrities and public figures to livestream videos on the platform. Facebook Live will be accessible through its Mentions app launched last year.

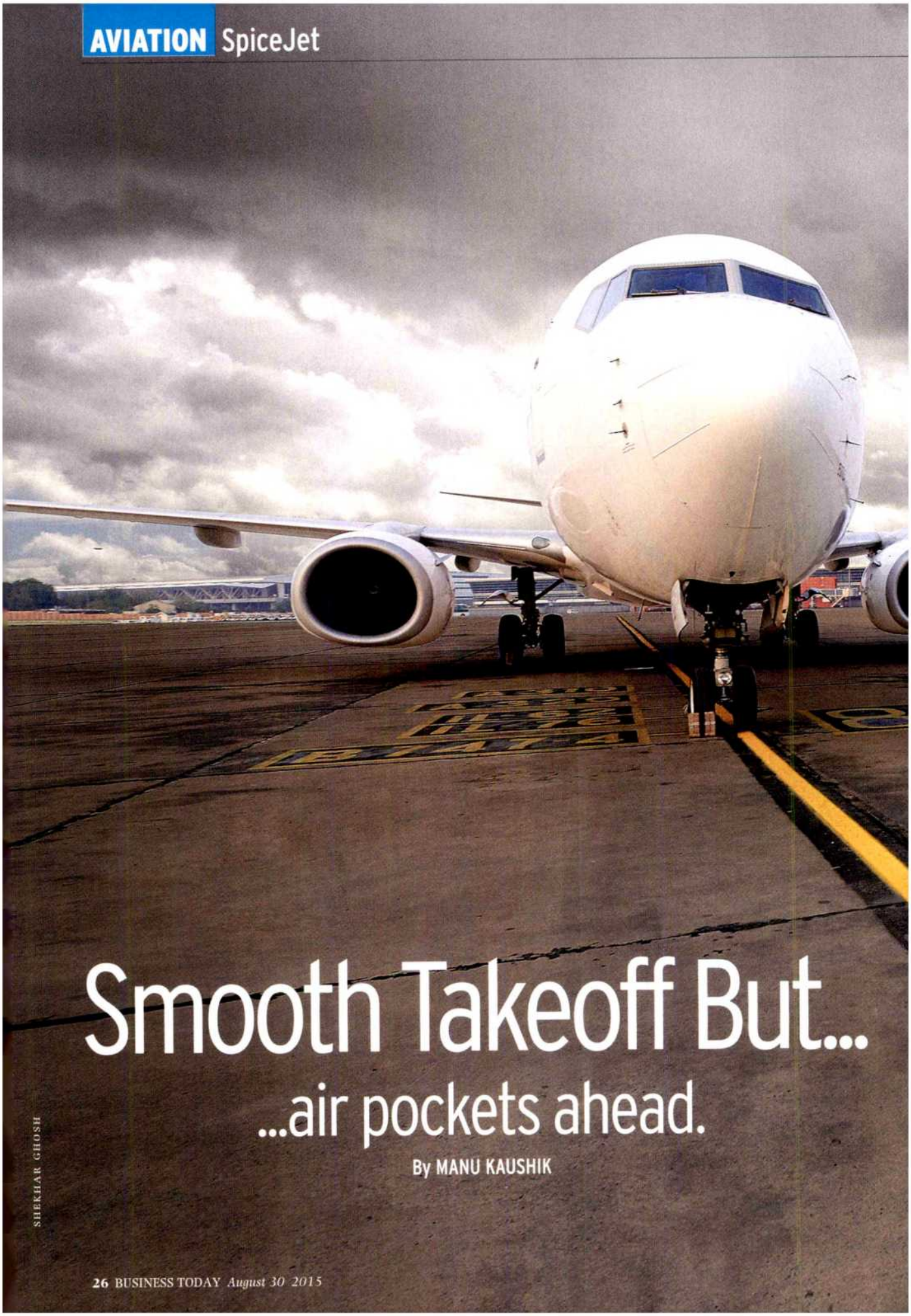
It's fast becoming the era of live video streaming with Twitter claiming over a million people logged into Periscope just 10 days after it hit the app stores. Meerkat has logged in over two million users. While Meerkat and Periscope can be used by anyone, Live seems to be aimed only at public figures right now. "With Live, public figures can take fans behind the scenes, host a Q&A, share announcements, and more – all in real time," wrote Vadim Lavrusik, a product manager at Facebook, in a blog post. "Live is a new way for you to connect authentically with your fans in the moment," he said.

Appy Discount

Here's a happy announcement from Google. To give more flexibility to Indian users and developers on Google Play, the search giant has announced that, starting July 31, users in the country can get apps at as low as ₹10.

Alistair Pott, Product Manager, Google Play, said in a blog post that India continues to be a major growth opportunity for developers to reach new users on Google Play. "We've received feedback from our global developer community and we are offering them more flexibility to choose how much to charge for their apps and games in India."

With this change, Google hopes to acquire new paying users and drive its overall monetisation. It's all about scale, after all. While app usage is on a growing curve, it's still nowhere near web penetration – and discounts like these will find more conversions.



Smooth Takeoff But...

...air pockets ahead.

By MANU KAUSHIK

SHEKHAR GHOSH

SpiceJet Chairman Ajay Singh at the Delhi airport (T3)

It was a close shave for the passengers and cabin crew aboard SpiceJet's flight SG 1085 on March 8. It took off as scheduled from Bangalore's Kempegowda international airport for Hubli around 6 p.m. but soon ran into rough weather. Just before landing, a downpour and thunderstorm engulfed the aircraft. It appeared to lose balance and wobbled through the runway with a damaged left maingear before skidding to a halt.

While it was a miraculous escape for those on the Bombardier Q400, also called turboprop, the damage to the aircraft was beyond repair. SpiceJet discontinued its operations to Hubli thereafter.

But the crash of the turboprop had an unexpected outcome. In May, Gurgaon-based SpiceJet posted its first net profit – of ₹22.51 crore – in eight quarters. A major contributor to the bottom line was the income – ₹61.35 crore – that the airline earned from the insurance claim on the damaged aircraft. "It is part of life. Sometimes, we pay to insurers and sometimes, we get from them," says Ajay Singh, Chairman of SpiceJet.

Experts called it a stroke of luck but the airline turned in another impressive performance in the next quarter to zip up the sceptics. The carrier posted a net profit of ₹71.8 crore in the April to June period, its second consecutive profitable quarter. It was also the highest first-quarter net profit in the history of the airline.

Indeed, Singh has been working tirelessly to nurse the airline back to health since his takeover earlier this year. His hands-on approach has led to the gradual improvement in market share, passenger load factor (PLF or the number of

THE STORY SO FAR

1993
Lufthansa signs an agreement with S.K. Modi in 1993 to launch a new domestic private airline, **ModiLuft**

2008
Ace investor **Wilbur Ross** invests in SpiceJet

2011
SpiceJet changes its business model by inducting **Bombardier Q400 aircraft** into its fleet to tap regional demand

1993 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

2005
Ajay Singh raises funds to restart ModiLuft. Renames the airline SpiceJet. Joins hands with **Bhupendra Kansagra**

2010
Sun TV Network's **Kalanithi Maran** buys 37.7 per cent stake. Infuses about **₹750 crore** into the airline in his personal capacity. Ajay Singh quits board

2013
SpiceJet CEO **Neil Mills** quits

Source: *BT* Research

SPICEJET'S RESURGENCE

While IndiGo is the only major airline posting profits...

Revenue	2014/15	2013/14	2012/13
Jet Airways	**20,966**	19,036	18,841
IndiGo^	**10,360**	11,432	9,440
SpiceJet	**5,202**	6,356	5,715
Net Profit			
Jet Airways	**-2,097**	-4,130	-779
IndiGo^	**721**	473	783
SpiceJet	**-687**	-1003	-191

... SpiceJet appears to be on the comeback trail

	Q1 2015/16	Q2 2015/16
Revenues	**786**	**1,106**
Net Profit	**22.5**	**72**

^For nine months ending December 2014
Source: BSE, InterGlobe Aviation Limited DRHP

Figures in ₹ crore

seats sold as a percentage of seats available) and financial performance in recent months. However, the challenges in front of SpiceJet are still daunting.

The Problems

SpiceJet was stumbling from one crisis to another for the past three years. Its losses mounted to ₹1,003 crore in 2013/14, leading to a crippling shortage of cash to pay off debt and dues. Then, in December last year, it was the last straw. The airline was grounded after oil companies refused to refuel its aircraft due to non-payments. Singh, who had started the airline in 2005 before selling his stake to Kalanithi Maran in 2010, stepped in immediately. After getting speedy approvals from the government, he acquired 58.46 per cent shareholding in SpiceJet from Kalanithi Maran and Maran-owned Kal Airways Private Ltd in February 2015.

Singh didn't invest a penny out of his pocket in the airline until he

2014

SpiceJet losses climb to a record **₹1,003 crore.** The carrier runs into turbulence with a spike in flight cancellations and planes taken back by lessors for non-payment of dues

2012 2013 2014 2015

2015

Ajay Singh steps in with a **₹1,500-crore revival plan.** Maran and his associate company KAL Airways transfer their 58.46% stake to Singh. The airline posts record Q1 profit of **₹71.80 crore.**

had a fair idea of the challenges before him. Singh nearly camped in the SpiceJet office in Gurgaon for weeks doing due diligence and taking stock of liabilities. Once he had made a detailed assessment of the airline's problems, he devoted time to convincing the government about his ₹1,500-crore revival plan. "In December, the DGCA (Directorate General of Civil Aviation) passed an executive order asking SpiceJet not to make advance booking of tickets. It is like the Reserve Bank [of India] saying this bank is going to fail. It was a sure shot way of making an airline collapse," Singh recalls.

It seems that Singh's interest in the airline is largely driven by the premium time and parking slots allotted to SpiceJet in key cities. Airports in India give slots based on a host of factors, including the age of the airline, terminal capacity and number of runways. Older carriers are given preference over newer airlines when time slots are allotted for the winter and summer schedules every year. After the Kingfisher Airlines debacle, IndiGo, SpiceJet and GoAir gobbled up its prized slots.

After taking over SpiceJet, Singh has been trying to improve the on-time performance (OTP) record of the airline. Still, the airline fares poorly on the OTP parameter in four metros – Delhi, Mumbai, Bangalore and Hyderabad. In May and June, its OTP stood at 72.1 per cent and 60.2 per cent, which was the lowest among domestic carriers. IndiGo, in contrast, had an OTP of 80.2 per cent and 82.6 per cent in those two months.

Singh says a low OTP can be attributed to the three planes that it took on wet lease from Czech charter airline TVS. These planes came on board for a short period to meet the rising passenger traffic during April to June. Wet lease is a leasing arrangement whereby an airline or lessor provides an aircraft, crew, pilots and maintenance to another airline. "Our turnaround time is 25 minutes. They go by their rules. Their turnaround time is 45 minutes," he adds.

Rising from the Ashes

Singh, however, is turning things around on various fronts. Take market share, for instance. Between July 2014 and February 2015, SpiceJet's market share dropped every month, sliding from 20.9 per cent to 9.2 per cent. But it has picked up in recent months, touching 12.1 per cent in June.

"If we get the costs [of turboprops] down to exactly what we want it to be then we can even add more aircraft. Otherwise there's a still question mark over it"

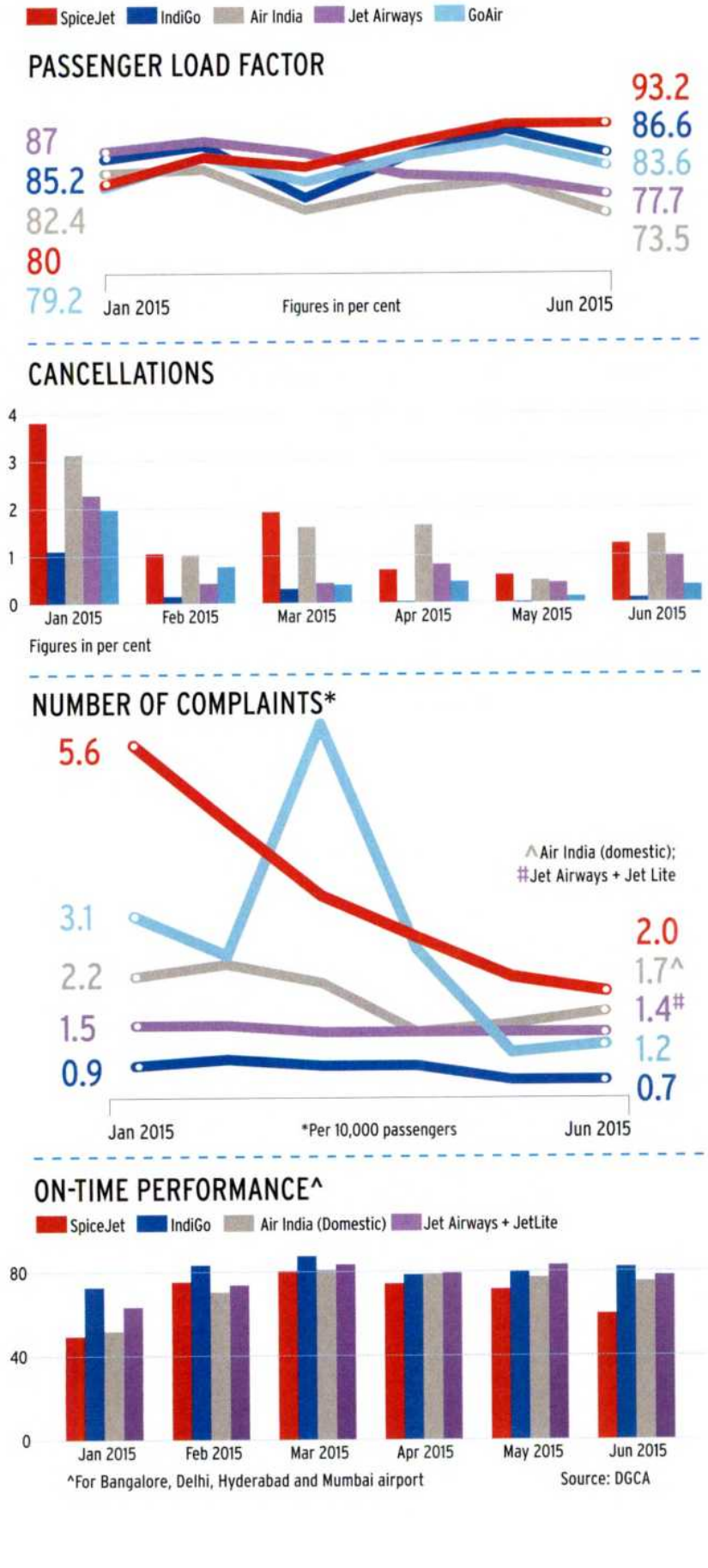
Sanjiv Kapoor
COO, SpiceJet

The first quarter of 2015/16 showed remarkable improvement in operational efficiencies. SpiceJet's overall costs were down 42 per cent in April to June 2015 as compared to the same period last

SHEKHAR GHOSH

SPICEJET VERSUS THE REST

How various airlines compare on key parameters



year. Low aviation turbine fuel (ATF) prices was the major contributor to this trend. Fuel accounts for almost 45 to 50 per cent of an airline's overall costs.

The airline has also shown marked improvement in its PLF rate. In May and June, the airline recorded the highest PLF – 93.1 per cent and 93.2 per cent, respectively – among domestic airlines. But PLF rate can be misleading, say experts. Airlines can easily boost it through flash sales. For instance, SpiceJet has done around 11 flash sales since January, including a July offer of tickets priced at ₹1. "Such sales are part of the low-cost carrier (LCC) business. LCC is like an Udupi hotel in the sky. If you keep prices low, load factors increase," says G.R. Gopinath, founder of Air Deccan.

However, experts say there's nothing wrong with such a strategy. "An airline knows its historic PLFs for different seasons. If they can plan now, and set aside a small percentage of seats in a [future] lean season for flash sales, they can increase the PLFs without making losses," says an aviation analyst.

Flash sales would not account for more than four to five per cent of total available seats, Singh had told *Business Today* in March. For SpiceJet, it would also help in restoring customers' trust in a brand which was tarnished because of large-scale flight cancellations some months ago.

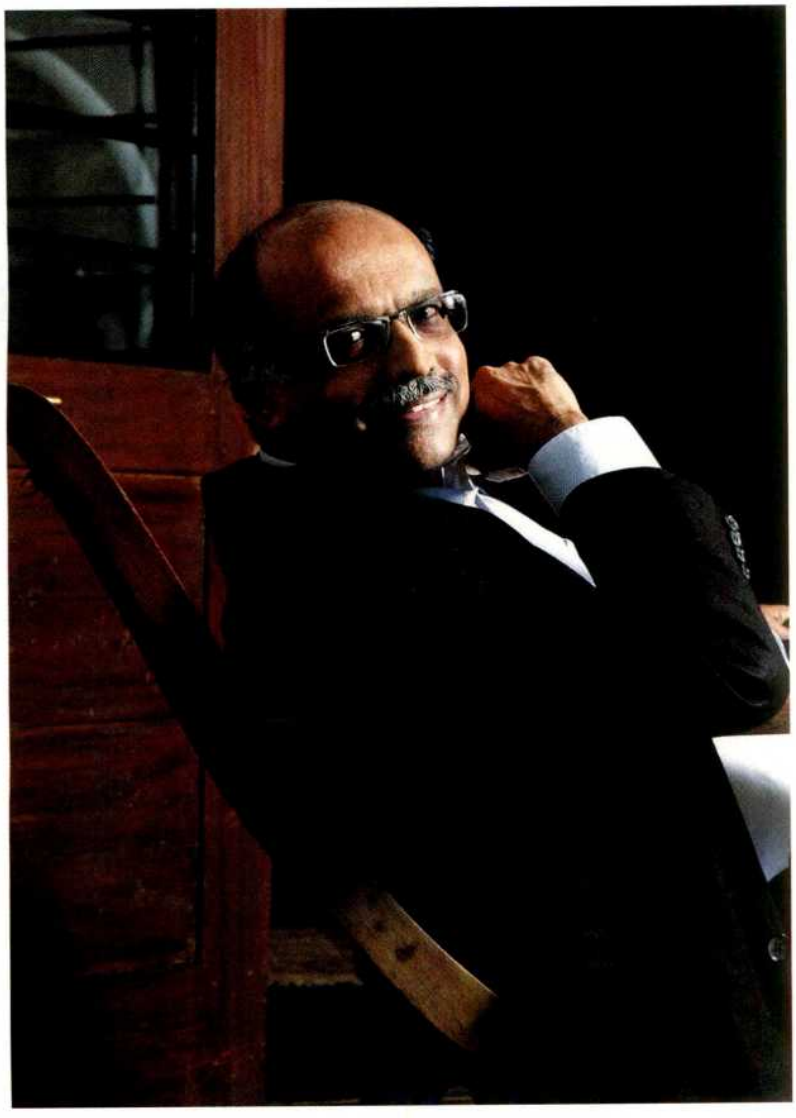
"For an airline to come back so quickly and be profitable in a weak quarter and fly with 90 per cent load factors is a very unique occurrence in the aviation [industry]," says Singh.

Take-off Troubles

Even as the airline gets back into shape, there are challenges galore that could delay its recovery. To begin with, SpiceJet is struggling to induct new aircraft in its fleet. Its current 34 aircraft fleet includes 18 Boeing 737s, 14 Bombardier Q400s and two wet-leased Airbus A319.

Going forward, it plans to increase fleet size to 45 to 50 aircraft in

See interview with Ajay Singh at
businesstoday.in/spicejet-singh



DEEPAK G. PAWAR

2015/16. But getting new planes is difficult especially because the airline had a tough time with its existing lessors over rental payments.

Following its crisis in December, three lessors – Wilmington Trust SP Services, Babcock & Brown Aircraft Management, and BBAM Aircraft Leasing and Finance – dragged the company to various courts seeking to de-register their (Boeing) planes with SpiceJet due to payment defaults. Once de-registered, the airline can't use those planes.

According to Singh, out-of-court settlements have been reached with all three lessors. "During this [first] quarter, we have reinducted an aircraft that had previously been returned and are in discussions to reinduct few more, which reflects renewed lessor confidence in SpiceJet," SpiceJet's CFO Kiran Koteshwar said in a statement during the second quarter results. SpiceJet has returned almost 20 planes to lessors over the past year.

Nevertheless, the whole incident has made lessors more cautious. Gopinath says the issues with lessors have given bad reputation to India and SpiceJet, in particular. "It will take time for the new management to prove its credentials," he adds.

Under the Cape Town Convention, to which India acceded in 2008, the lessors should be given repossession of aircraft in case of payment defaults by an airline. For example, in the case of Kingfisher Airlines, airport operators seized aircraft because the company owed money to them. "In India, they don't make repossession easy. They go to courts. They also remove parts. Once the aircraft is stuck in the country, the lessor loses money. The convention says that if the airline cannot pay, you first return the aircraft, and then make an account settlement," says Gopinath.

Last year, SpiceJet placed orders for 42 Boeing 737 Max planes, which will start arriving from 2018. The company is trying to prepone the deliveries to 2017. Then, there are reports of the airline buying 100 new planes from either Boeing or Airbus as part of its long-term plan.

Singh says that he could not anticipate that the aircraft availability would become a challenge in the short term. "When we went to the market, the aircraft were not available. My anticipation was that because of the troubles in Russia and some other places, there would be more planes available. Unfortunately, there seems to be more Airbus available than Boeings," he says. It is generally difficult to get aircraft in the short-term. Most orders are placed three to five years in advance.

"Issues with lessors have given a bad reputation to India and SpiceJet in particular. It will take time for the new management to prove its credentials"

G.R. Gopinath,
Founder, Air Deccan

A Thorn in Side

Nearly three months after joining the airline in 2010, the last SpiceJet CEO Neil Mills placed orders for 15 Q400s. He was confident that compact turboprops would make sense for an airline looking at expanding its footprint. First, only a limited number of airports in India can handle narrow-body aircraft (A320s or B737s). Turboprops can be operated on smaller airports where big planes can't land. The previous management thought that they would be able to tap into regional demand, connecting small towns with short-haul flights to metros like Chennai, Delhi and Hyderabad.

Also, the government policy encouraged induction of smaller aircraft. It was a diversion from the global LCC model of having single-type aircraft fleet, which keep financial and managerial complexities down and operations simpler.

The management soon realised that they required two sets of pilots, engineers and cabin crews. It also meant different contracts and additional cost of maintenance, repair and overhaul (MRO).

It turned out that the maintenance and spare parts contracts signed with Bombardier by the previous management were unfavourable for SpiceJet. "We had signed a contract which was fixed charge per month per aircraft. Even if the aircraft is not flying, we still have to pay a fixed fee. Now, we are changing that. We will only pay for maintenance based on the hours the aircraft is flying. We are also renegotiating the costs of spare parts," says Sanjiv Kapoor, COO, SpiceJet.

With renegotiations, the overall costs for turboprops have come down by 10 to 12 per cent. "It has to come down more. We are halfway through. If we get the costs down to exactly what we want it to be then we can even add more aircraft. Otherwise there's a still question mark over it," says Kapoor.

"Intense competition in domestic market led to frequent bouts of flash sales in 2014/15 that created a sudden traffic spurt. An improvement in overall business sentiment also helped"

Amber Dubey, Partner & India Head of Aerospace & Defence, KPMG

If nothing works out, the last resort for SpiceJet would be to sell these turboprops in the secondary market.

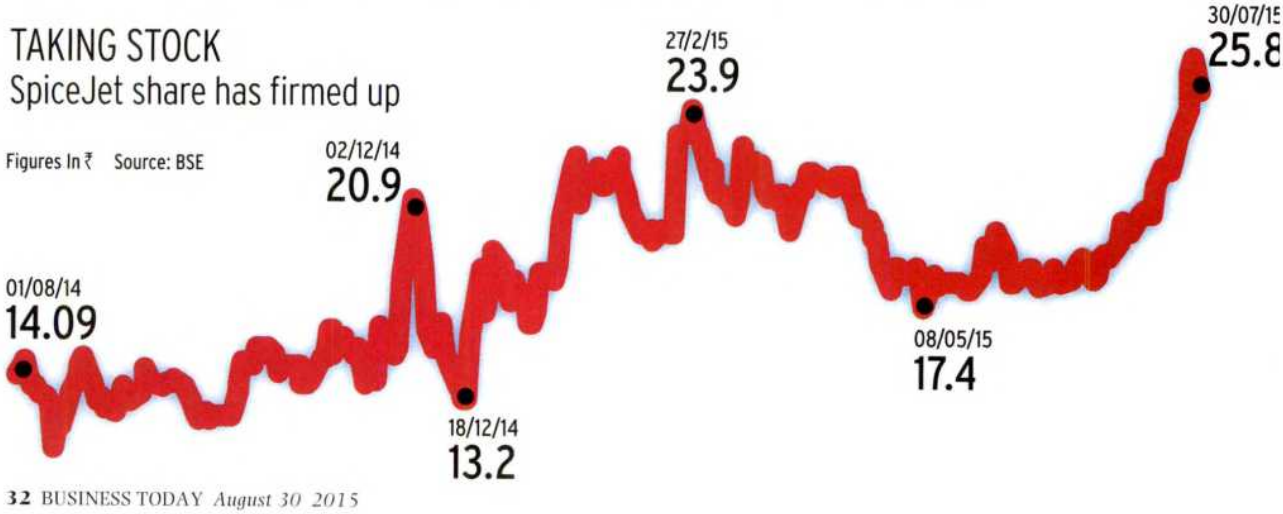
Expert opinions are divided on the future of Q400s with SpiceJet. Kapil Kaul, CEO (South Asia) of aviation consultancy CAPA, says that operating with only 14 Q400s doesn't make any financial sense. "The Q400 fleet size should be increased to over 35 to 40. So, continuing with Q400s will need serious funding and very careful evaluation is required as it could hurt overall profitability."

An aviation industry analyst, Ameya Joshi, says with dual-type fleet, SpiceJet can get more PLF by connecting smaller cities with metros and in turn feeding into their metro-to-metro network. "They now have a workforce trained on the Q400s along with considerable number of pilots, crew and engineering staff," he says, pointing out to global LCCs like Flybe, WestJet and Allegiant Air don't have one-type fleet.

A. PRABHAKAR RAO

TAKING STOCK
SpiceJet share has firmed up

Figures In ₹ Source: BSE



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Back to Basics

There are other problems for SpiceJet. The airline has not focused on building a network over the years. In a typical LCC model, every destination should have a reasonable number of flights (per day) so that the fixed costs get amortised.

Similarly, for an aircraft, more seats translate into lower unit costs. Even if an airline is flying more passengers, the staff salaries and equipment costs are fixed for each station. That's why most LCCs have maximum seats allowed in an aircraft.

Some years ago, SpiceJet started opening too many stations with only one flight a day such as Mysore, Indore, Bhopal and Pondicherry. Last year, the company started relooking at its network with an aim to consolidate the number of stations and increase frequency between them.

In November 2013, for instance, the airline operated to 56 stations out of which 10 were international. In December 2014, it reduced the number to 46. The network rationalisation also included international long-haul destinations which were not making money. Today, it has a network across 41 stations – 34 domestic and seven international – and operates 250 daily flights. "We have dropped loss-making and one-flight-a-day stations such as Bhopal, Indore, Pondicherry, Riyadh and Sharjah," says Kapoor.

The Future is LCCs

Meanwhile, things are looking up for LCCs again, and players like SpiceJet are likely to benefit from it. A recent report by CAPA says that the industry's financial performance is expected to improve further in 2015/16.

The market share of LCCs in the aviation industry is set to rise to over 70 per cent in two years, from 65 per cent currently. IndiGo's domestic market share will almost certainly cross 40 per cent during 2015/16 and could cross 45 per cent within the next two years. In such a scenario, it would be interesting to see how SpiceJet makes an effort to regain market share without compromising on profits.

Full service carriers (FSCs) are putting up a good fight. Indeed, according to a recent study conducted by regulator DGCA, there was hardly any difference in fares of FSCs and LCCs in 2014 on some routes. For instance, in the last quarter of 2014, SpiceJet's average fares for a Delhi to Mumbai flight were higher than that of Air India, IndiGo and GoAir.

This year has been spectacular for the industry with passenger traffic growing at 19.81 per cent during the January to June period as compared to last year. The drop in fuel prices allowed airlines to offer discounted fares through a series of flash sales to rev up demand. "Intense competition in domestic market led to frequent flash sales in 2014/15 that created a sudden spurt in traffic. An improvement in overall business sentiment in India also helped," says Amber Dubey, Partner and India Head of Aerospace and Defence at KPMG.

Experts point out that even though the domestic passenger traffic has nearly halved between April 2011 to March 2012 (121.51 million) and January to December 2014 (67.38 million) the market leader IndiGo has managed to increase its market share in the same period. For instance, its market share has grown from 23.8 per cent in April 2012 to 38.4 per cent in June this year.

"Whenever an airline goes down (Kingfisher or SpiceJet), IndiGo tends to benefit because of its consistency and scale," says an aviation analyst.

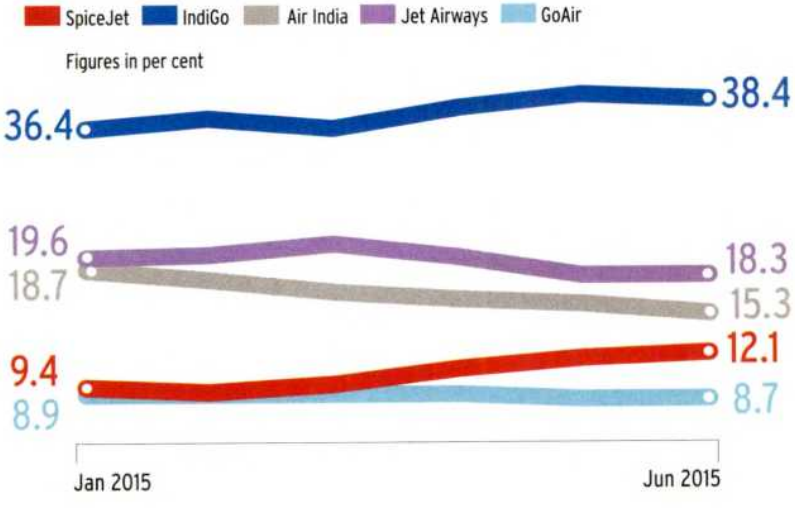
In fact, IndiGo is the only airline that has become profitable in the past four years. Its closest rival GoAir is also profitable but with a much smaller operations – only 19 aircraft. IndiGo, on the other hand, has about 96 planes and is adding about 10 to 15 new ones every year.

The competition is also likely to intensify in the LCC market with the launch of two regional airlines – Air Pegasus and TruJet.

Overstaffed

The rise of IndiGo coincided with the fall of SpiceJet. The SpiceJet management went overboard with staff hiring till the end of 2103. At one point, SpiceJet had employed some 140 employees per aircraft as compared

BACK IN THE RECKONING
SpiceJet's market share has improved in recent months



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to about 100 for IndiGo. It's an important metric to look at because the moment an airline breaches the 90 employees per aircraft ratio, it is seen to be overspending on staff salaries which can affect profitability. Clearly, the new SpiceJet management realised that it has to prune its staff strength if it is to become profitable.

Overstaffing took its toll on SpiceJet. Its employees eventually were not paid salaries on time last year, leading to mass exodus of pilots and cabin crew. Singh says that staff rationalisation was his top priority when he joined the airline. In 2014, the airline had 5,500 employees. "When I took over, it had already gone down to 5,000. Currently, we have about 3,800 people. After laying off over 1,000 people, our staff rationalisation plan is almost complete," says Singh.

But that was not enough. Singh also assessed the performance of senior staff who were hired by the previous management at "exorbitant" salaries. For example, SpiceJet's former VP (revenue management) Fares Kilpady was reportedly paid over ₹2.5 crore. Recently, seven senior personnel have quit the company.

There are talks of more pruning at the top. "I have to do it gradually at the senior level. I cannot create a vacuum all of a sudden," says Singh.

The Long Road Ahead

SpiceJet needs to quickly start generating profits because its promoter cannot continue pumping in money. So far, Singh has put in around ₹850 crore, which is significantly short of the amount – ₹1,500 crore – that he had planned to invest initially. Singh says the money is arranged by him from banks, trade finance, creditor finance and his own funds. Singh, who owns around 59.13 per cent stake in the carrier, has recently pledged 34.04 per cent of his stake, as per the July 17 filing to stock exchanges. He is also planning to infuse another ₹300 crore in which he will accommodate some private equity (PE) players who have not invested in the airline so far.

Recently, there were reports that Gulf carriers such as Qatar Airways and flydubai are in talks with SpiceJet to pick up a stake. Both airlines, however, have denied any discussions with SpiceJet. "We have also got offers from some foreign carriers to participate but I think it is at premature [stage]. PEs have not invested for the reason that the company didn't need cash as urgently. They bring strategic value to the company. We will take a call on the timing and the amount," Singh says.

SpiceJet has also pared its liabilities significantly in the past six months, but it still needs to pay back some dues. The statutory dues, salaries, bank debt and liabilities of oil companies and lessors are already paid off. Now it is left with vendor dues. About ₹600 crore worth of (vendor) dues have been restructured with a payment plan that's spread over a few years.

With some stability in operations, SpiceJet is now trying to move up the value chain. It has launched three ancillary services recently –Spice Assist, priority check-in and bag-out-first.

Also, it has refocused on its premium product – SpiceMAX – that mostly caters to corporate travellers. SpiceMAX seats come with more legroom, priority check-in and complimentary meals and beverages at an extra fee of ₹500 to ₹1,000. Corporate customers spend higher amount than leisure travellers.

"The successful LCCs make 15 to 20 per cent of their revenues from ancillary sources. We just reverted to our original strategy of trying to increase the ancillary revenues. We also aim for 15 per cent target," says Singh.

The current off season is, perhaps, the ideal time for Singh to draw up a long-term strategy for network, pricing, fleet and staff. "Raising funds of about $200 million is critical to effective and executable long term strategy. A new SpiceJet has to emerge post December 2015 which has a clear strategic direction," points out CAPA's Kaul.

For Singh, the journey has just begun. ◆

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CHALLENGES

- A two-type fleet leads to operational and financial complexities
- Inability to lease planes in the short-term as lessors will be cautious
- It will take time for customers to trust SpiceJet brand again
- Employee-to-aircraft ratio is still high (over 110)

STRENGTHS

- New promoter, new senior management and easy availability of funds are major advantages
- Low ATF prices will keep the operational costs low
- New tie-ups, more add-on services and unbundling of fares could boost revenues

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"You can grow market share, but it is not sustainable if it's not profitable"

S. KUMAR

General Motors (GM) has been operating in India for almost two decades but hasn't been able to make a mark in a market dominated by Japanese and Korean companies. CEO **MARY TERESA BARRA**, *during a visit to India recently, announced that the company will shut its Gujarat plant to consolidate production at its Talegaon plant in Maharashtra and that it plans to invest $1 billion to launch 10 vehicles in the next five years and double its market share to nearly four per cent by 2020. In an interview with* **NEVIN JOHN**, *she explains the US automaker's changing approach to the Indian car market. Edited Excerpts:*

You met with Prime Minister Narendra Modi and discussed the investment plans. How do you plan to move forward in India?

The $1 billion allocated for India is part of the $5-billion investment we plan for strengthening Chevrolet brands and positioning us to win in growth markets. We recognise India as an important country, where there are rising opportunities in sync with the growing aspirational middle class. Chevrolet, with a new family of vehicles, will be able to provide great value to the market. We have done a lot of work to understand the Indian customer, their concern on values, technology, fuel economy, safety and connectivity. We want to double our market share in a short span. The expansion of the Talegaon plant and supply base will create 12,000 jobs. We are looking at deep localisation of manufacturing in parallel to the Make in India strategy of the Narendra Modi government. Our strategy is to make GM India the hub of export. We target to export 30 per cent of the volume from the country.

Arvind Saxena, Managing Director, GM India: We already export cars to Chile. The next export destination is Mexico. We are scouting for new export markets including the African continent. We will also export powertrain and components.

Barra: We plan to present 10 locally manufactured new products in the next five years. The target is to reach all aspects of the Indian market since there is tremendous growth opportunity here.

Why have you never introduced luxury products such as Cadillac and Buick in India?

We will be looking at launching the right products across markets and will check whether high-end products could signify the brand.

Stefan Jacoby, International President, GM: The emphasis is on local manufacturing, which makes sense and will boost the brands. The luxury cars are iconic American brands. We target to get sophisticated customers, who truly want new variants than moving from vehicle A to B. The base vehicles and the low-cost cars will, of course, grow because of the population migrating from two-wheelers to cars. But the other segment, the middle class, is focusing on features like safety, durability and fuel economy. Design is also important for middle-class customers. They are keen on content, appeal and attractive interiors and exteriors. We believe that Chevrolet could fit in this space. As far as the electric vehicles are concerned, it is still a long way to go in India. We see an opportunity for luxury vehicles here. We will deliver accordingly.

You also have many of your great products in China but not in India. Will you introduce those products in India?

Jacoby: Introduction of those products is under consideration. We will not reveal which product we will bring here. But we understand the market and know that SUV is a potential segment in India, especially compact SUVs. We will have a full line-up to offer to the customers in the next five years.

When we look at previous investments, there is a feeling that GM is focused more on China and Brazil rather than India. What are the reasons?

I think $1 billion is good enough to change that feeling. We have been in India for 19 years. We have invested $1 billion so far. But we decided to double our investment. This means we want to stay here. The 10 new products will be the new beginning. It will strengthen business.

Where will you deploy the $1 billion?

This is for developing new products specifically for the

Indian market. We are also investing for the equipment and machines at the Talegaon plant. We will make products here in line with our localisation policy.

Jacoby: Our localisation will even go to the Tier II of the supply chain. These will be deeply localised products for the Indian market.

Why did you fail to keep on the momentum that you got with the launch of Beat in 2010 in India?

I was not at this job that time. Still, I can say that we didn't see some of the opportunities in the Indian market. We didn't have the right products to continue the success. The issues in quality and the recalls impacted growth. The $1-billion investment to strengthen the Talegaon plant will help us to overcome these issues. It is a recommitment and a new start for Chevrolet in India.

What are your learnings? How are you redefining the company?

We are working hard to become the most valued automotive company. Our customers want us to grow, build strong brands and introduce breakthrough technologies to enhance experience. In my tenure, we focused on customers. We demonstrated that last year amidst the challenges. We developed a 'zero-defect' mentality and revamped the way we do validation and testing to become the leader in safety. Technology has advanced dramatically. See the electric cars. Chevrolet Volt and the next generation Volt EV are exciting. We announced the intelligent driving system, which will provide safety in congestions.

"The $5-billion investment in China, India, Brazil and Mexico will help us to gain market share and continue the growth momentum"

Will you sell the Gujarat plant to reduce the liabilities from the books of the India unit?

We have decided to cease production and continue to look for opportunities. We don't have anything specific to announce right now. We plan to settle it in consultation with the employees.

You made a loss of $600 million last year in India. Will you look at writing off part of your investments to reduce the burden on the books?

I am not going into specifics. The main message is that we want to build a sustainable and profitable business here. We have a comprehensive plan that we are executing.

How do you plan to ramp up the after-sales service?

Saxena: We have a strong plan to improve the customer experience. We have launched the global programme called Chevrolet Complete Care. We have about 250 service centres. As and when demand grows, we will increase the number of service centers.

You have completed 19 months at the top job. There is a feeling that saturation has hit the western markets. Which segment offers greater margins for GM there?

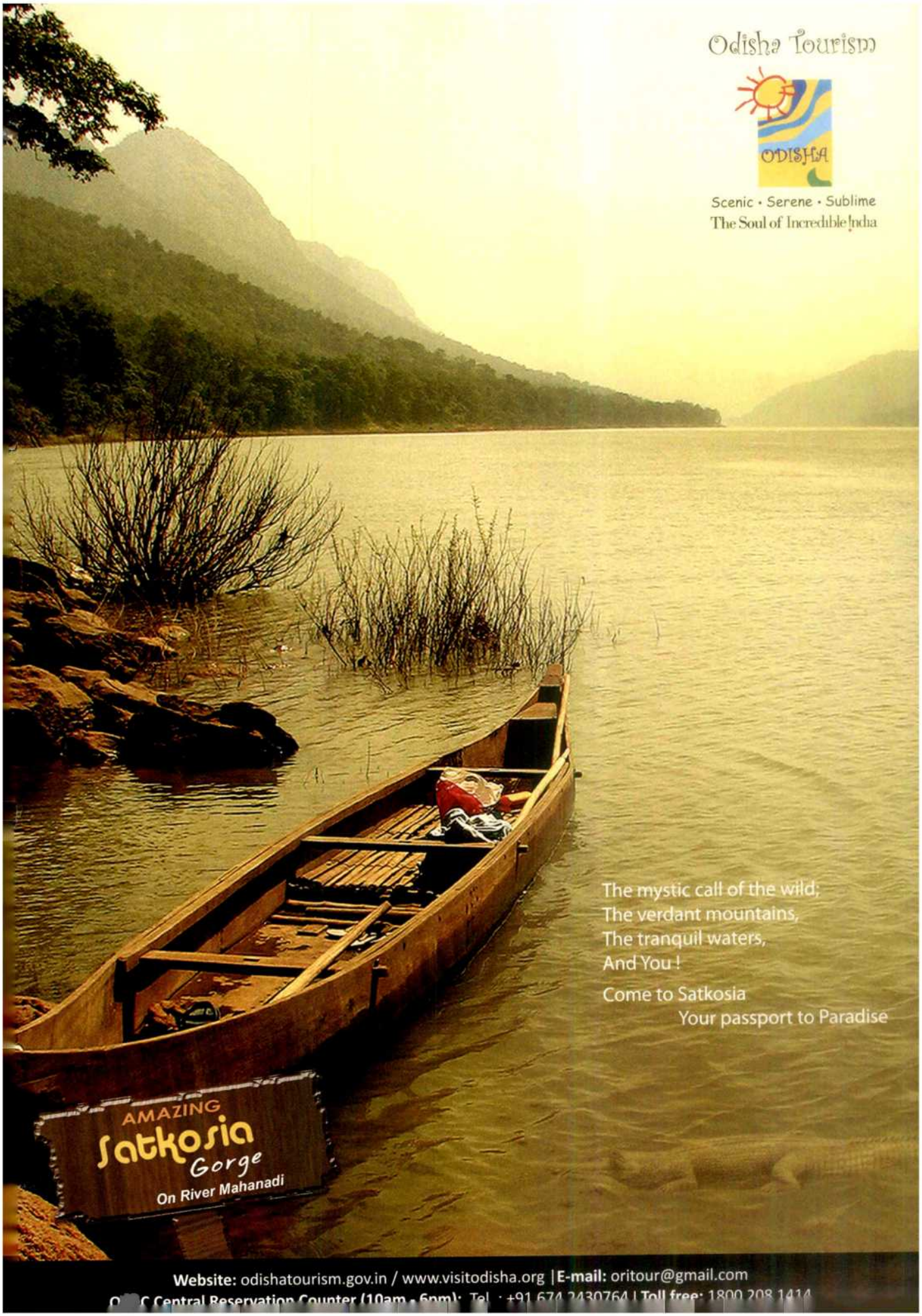
The western market is still going strong. We are experiencing good growth. Every rollout under the strong brands gets acclaims there, whether it is Cadillac or Chevrolet or regional brands like Buick or Opel. We continue making progress in North America with strong results. We expect that Europe will break even next year.

Are you still feeling the pangs of bankruptcy?

We have well passed that and progressed to the future. Today, we have a strong customer base, big brands and reliable partnerships with dealers, suppliers, governments and communities, which we work.

How do you plan to regain the top spot that you lost to Toyota and Volkswagen?

The important aspect that we look at is margins and profitability. The $5-billion investment in key markets – China, India, Brazil and Mexico – will help us to gain market share and continue the growth momentum. If you look at our family of vehicles or acquisitions, you will understand that we are focused on profitability.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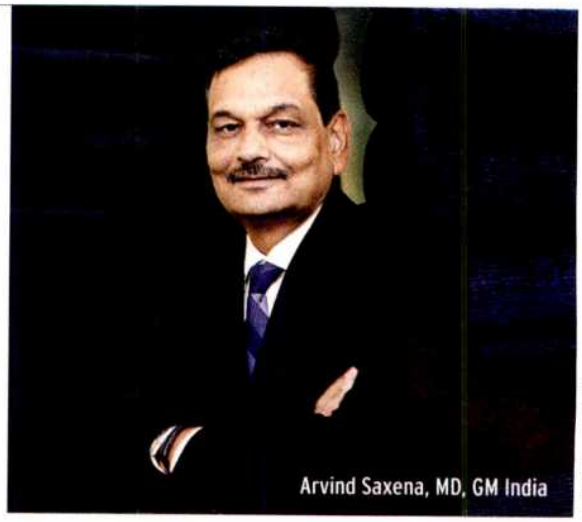
Arvind Saxena, MD, GM India

VIVAN MEHRA

Your strategy is linked to margins and profits. Why did you move away from the old strategy of top-line growth?

I want both. You can grow market share, but it is not sustainable if it's not profitable. We are looking to run the business in a sustainable fashion. If you look at the technology and the kind of vehicles we build for India, the effort is on customer satisfaction and value for money.

The second quarter financial performance in China is appreciable. You have improved the margin from 10 per cent to 10.2 per cent despite the slowdown. How did you achieve it?

"The next export destination is Mexico. We are scouting for new export markets including Africa"

As we started seeing the market dynamics changing, the China team became proactive and looked for improving efficiencies across all aspects of the business. They keenly studied the customer requirements. Resultantly, we introduced successful SUVs like Buick Envision, Chevrolet Trax and Baojun 730. We are focused on building the vehicles that the customers want. GM is today nimble and agile to face the market challenges.

How do you plan to cut costs in China? Will it affect the product quality?

Cost cutting has nothing to do with quality. We will never make a change that will affect quality. We are the industry leaders in quality and safety. We may look at discontinuing some irrelevant features. As part of cost cutting we look to improve efficiency in design and production.

How did you overcome issues like safety recalls?

We changed the way we engineer and develop the products. In today's products, you see high quality, reliability and durability. That is the fundamental changes that we have done across the globe to make sure we are the leaders in safety and quality.

I believe you are trying to change GM's culture and organisational structure, which was considered very insular and slow moving till its bankruptcy...

Yes, culture change happens every time. You will have to change the business process and the way people work and how you engage them. We have made tremendous progress, empowering people to do the right thing, focus on the customer and drive for results. In India, we have announced that. Still, we have a lot of work to do and we will continue to do that.

What are the innovations happening in GM?

The key innovation is happening in developing technology for improving customer experience. We procure information on customer needs from our regional managers. We have a group of researchers to identify promising technologies. They work with universities around the globe. We have a comprehensive mechanism for collecting information from customers and putting it in technologies in the vehicles.

You are the first woman CEO of any major automobile company in the world. How do you see it?

Barra: You are being recognised for a job because of your contribution for the results. There is no gender specific reason for it. But in this role I can motivate young women. Education is an important aspect that young boys and girls seriously look into. In today's world, everything is becoming technologically sophisticated. I advice young women should focus on mathematics and science for capturing the opportunities. ◆

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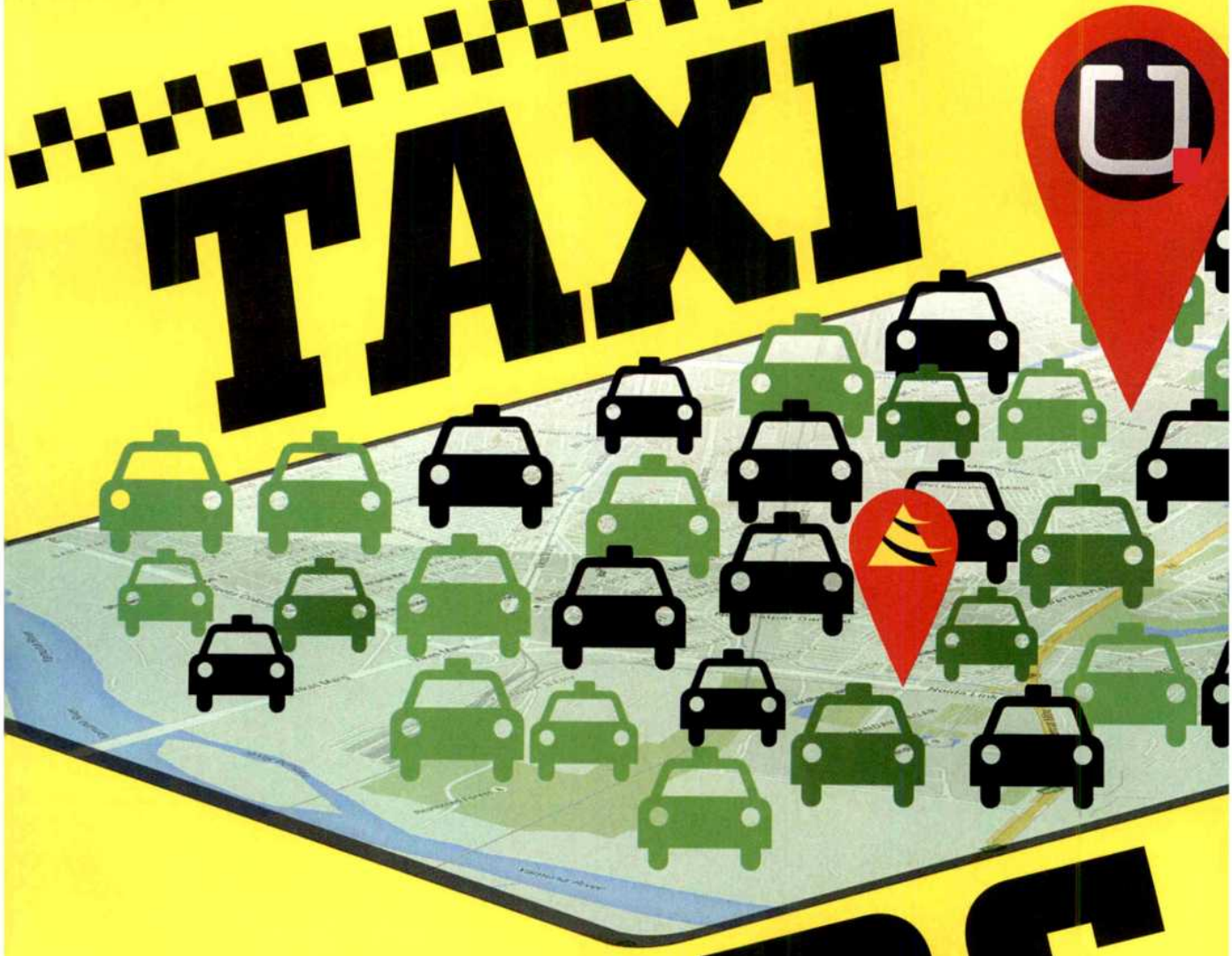
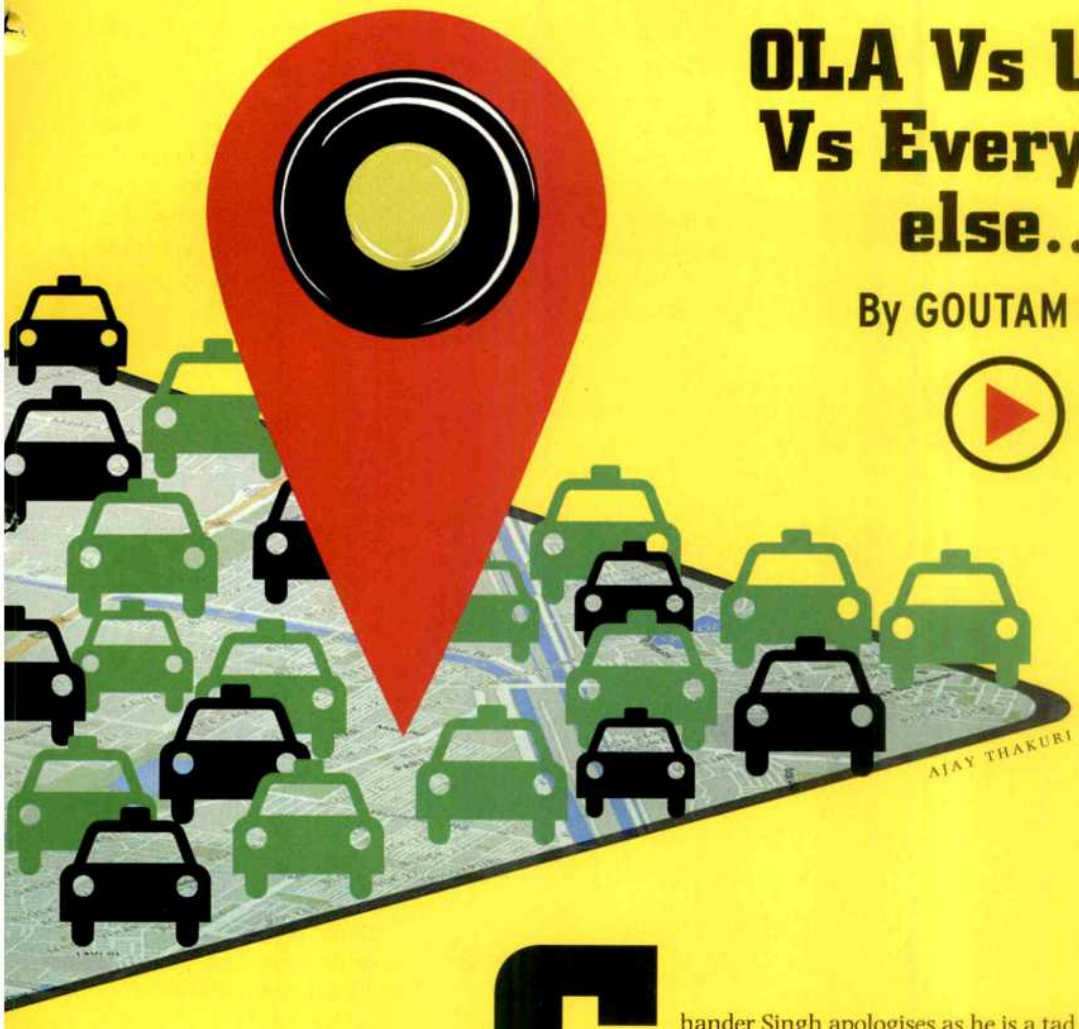
A BEAUTIFUL CITY... OUR COMMITMENT

TAXI WARS



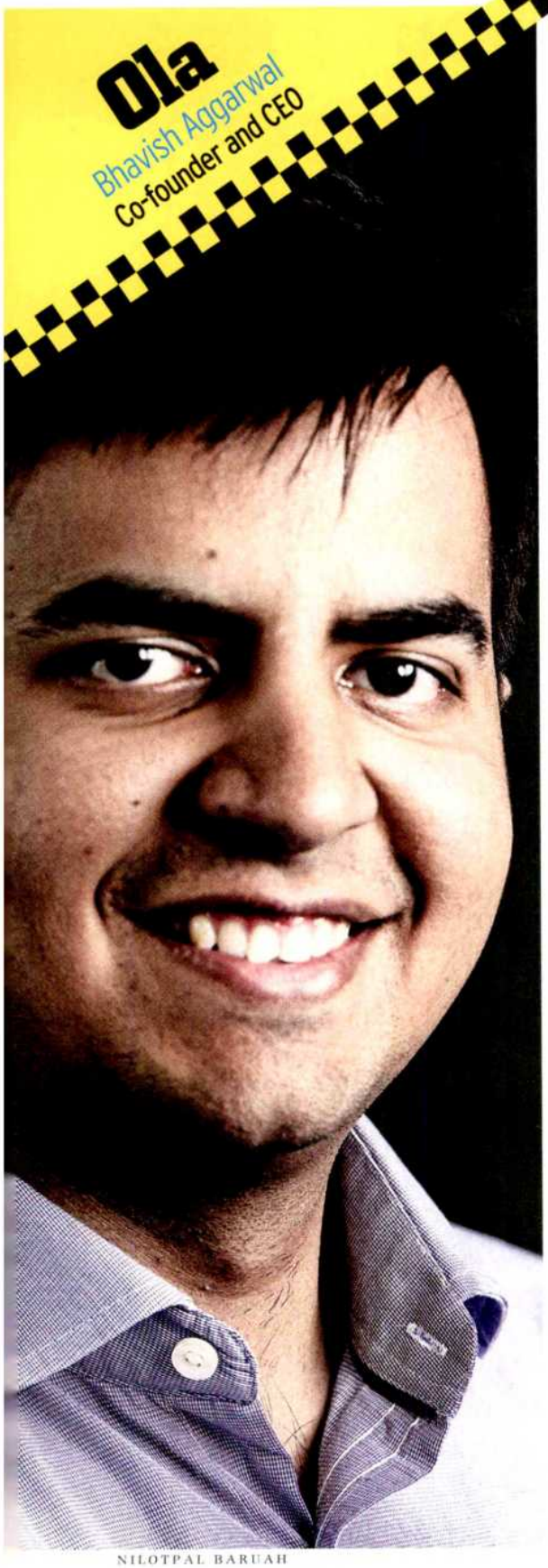
OLA Vs UBER Vs Everybody else...

By GOUTAM DAS



Chander Singh apologises as he is a tad late when he comes to pick up this writer in his new Swift Dzire. Singh has been a driver for many years; most recently with The Imperial, a heritage hotel in Delhi. He earned a lot from tips foreign tourists doled out, but was getting tired of polishing his shoes every morning – a demand from his managers he found hassling. Instead, he wanted to work on his own terms. So a few months ago he, along with a friend, bought a car on loan and started working for San Francisco-based cab hailing company Uber. He hopes he will make ₹25,000 a month on average. Uber, says Singh, also tops up with ₹300 per trip during peak hours. At the end of the trip, from Noida to South Delhi, Singh quips: "I am trying out Uber. If this doesn't work, I will go to Ola. I am also getting calls from Meru every day."

All marketplaces have a choke point. In the case of e-tailers, it is the consumers whose appetite for discounts leads them to flame venture capital money. In the case of on-demand taxi aggregators such as Uber, Ola Cabs and Meru Cabs, it is the drivers. Taxi aggregators typically don't own any cabs or employ drivers; they connect customers with drivers through a tech platform, the front-end for the customer being an app. According to one estimate, 1.6 million vehicles in India are licensed to run as cabs but there are not as many quality drivers. It is quite a task for aggregators to convince drivers – used to a mom-and-pop model or radio



NILOTPAL BARUAH

taxis – to work with them. And those who are available, like Singh, may not remain loyal to one company.

Securing the supply side has become a slugfest among India's top three on-demand taxi companies – ANI Technologies, which runs Ola, Uber and Meru – as they pour money to capture the market. Ola and Uber, particularly, backed by global venture capitalists, are threatening to make every other taxi company in India irrelevant. Home-bred Ola has thus far raised more than $700 million. Uber has mopped up $6 billion and has committed $1 billion for India in the next nine months. Both are using their war chest to offer incentives to drivers and discounted fares to riders. Traditional radio cabs and small-time operators are struggling to match up. The existential threat has made them cry out "market monopolisation". Companies such as Meru, Carzonrent and Mega Cabs have thrown their collective might to regulate the "unregulated" on-demand companies. Legal tussles have greeted the aggregators. But more about that later.

Meanwhile, big money is making this battle worth fighting for. According to the Association of Radio Taxi India, the taxi business in the country is growing at 20 to 25 per cent a year. The organised taxi sector accounts for just four to five per cent of the industry and totals $800 million. It is expected to grow to $7 billion by 2020.

Ride Share

Ola has emerged as the clear leader in terms of market share. According to a presentation by SoftBank Corp., an investor in Ola, the company had a 60 per cent share in November 2014, based on data of registered vehicles. TaxiForSure – a company Ola acquired in March this year – had 14 per cent share. Meru had the second-largest share at 16 per cent while Uber, which is now the world's most valued technology start-up at $50 billion, just had five per cent of the market. Ola appears to have expanded its share if we were

OLA CABS

- Founded in Mumbai, December 2010
- Active in 100 Indian cities
- 100% aggregated
- Cabs booked only through app
- Aggregates autos
- Cash payments accepted everywhere / wallet option

FUNDING RAISED
$700 million+

INVESTORS
DST Global, SoftBank, Falcon Edge, GIC,Sequoia, Steadview, Matrix, Tiger Global

TOTAL INCOME

2013/14	2012/13
51.05	16.41

PAT

-34.22	-22.80

TAXIFORSURE*

TOTAL INCOME

2013/14	2012/13
4.29	0.64

PAT

-17.08	-3.02

*Ola acquired TaxiForSure recently

Figures in ₹ crore. Source: ROC

to go by the disclosures SoftBank made during its earnings presentation for its fiscal year on May 11. The combined market share of Ola and TaxiForSure is 80 per cent. Meru's share has dropped to 12 per cent while Uber is at four per cent. All other taxi companies together have the rest.

Ola had a head start in the aggregation market, having started in December 2010. TaxiForSure was founded a few months later, in June 2011. Uber entered India only in October 2013. Meru, of course, started much before, in 2007, but it mostly had owned cars – it bought cars and employed drivers. It began a shift to the aggregation model in 2011. Ola managed to raise money faster; its Series A funding came from Tiger Global in 2012 and Series B from Matrix Partners and Tiger Global in November 2013. In contrast, TaxiForSure's Series A came only in June 2013. That allowed Ola to aggregate cabs faster than anybody else and innovate on the technology. Ola introduced the mobile app for cab booking in 2011 while TaxiForSure and Meru both managed that only in June 2013.

Ola today claims 250,000 vehicles on its platform, including autos, and a presence in more than 100 cities. It says it is adding 1,500 vehicles every day. Meru, however, says the market share mathematics should not be based on the number of cars; it has to be on consumer revenue. If that is factored in, Meru claims its share would be 23 per cent. Uber, which operates in 18 cities, disputes the market share numbers. An Uber spokesperson contends that the company is much closer to Ola in terms of overall market size. "It's not as one-sided as that report or subsequent media reports have made it out to be," he says. "We are the same size or larger in many big metro cities in India."

Whatever the size, Ola does get the bragging rights for now. It publicly prides itself for beating Uber in being more India-centric. On July 4, Ola teased Uber on Twitter. From its official handle, it posted: "@Uber_India Couldn't agree

UBER

- Founded in San Francisco, June 2009
- Active in 18 Indian cities
- 100% aggregated
- Cabs booked only through app
- Aggregates autos
- Cash payments accepted in six cities
- Paytm wallet, credit and debit card work

FUNDING RAISED
$6 billion
India specific: $1 billion

INVESTORS
Lowercase Capital, Menlo, First Round, Benchmark, Goldman Sachs, Google Ventures, Baidu

TOTAL INCOME

2013/14	2012/13
2.26	N.A.

PAT

0.07	N.A.

Figures in ₹ crore Source: ROC

VIVAN MEHRA

THE OTHERS

Mega Cabs
Kunal Lalani
Chairman and Founder

Founded in Delhi, 2002
Radio taxi
Active in six Indian cities

EasyCabs
Rajiv K. Vij
CEO (Carzonrent)

Founded in Delhi, 2000
Radio Taxi
Active in 4 cities

Fast Track
Redsun C. Ambigapathy
MD

Founded in Chennai, 2001
Call Taxi
In 42 cities

more! uberGO. Auto. Wallet. Cash – that's a lot of flattery! #WelcomeToIndia". Uber laughed it off: "@Olacabs Haha so contemptuous. Have a good weekend, guys!"

What was Ola pointing out? "These are things they learnt from us," a social media handler from Ola says, laughing. "Competition is good."

Gig Battles

While Ola, Uber and Meru are all aggregators, their approaches are nuanced. They differ in some cases and converge in many. Uber is a pure play app-based service and has a westernised template. One can book a cab only through the app. No cash payments are accepted globally though the company recently made a significant exception in India. Customers can pay through the Paytm wallet, credit cards, debit cards, as also cash in a few cities. In India, the company offers uberGO (hatchback vehicles or small cars that are the cheapest), uberX (mid-sized sedans that are costlier) and uberBLACK (larger vehicles at premium pricing).

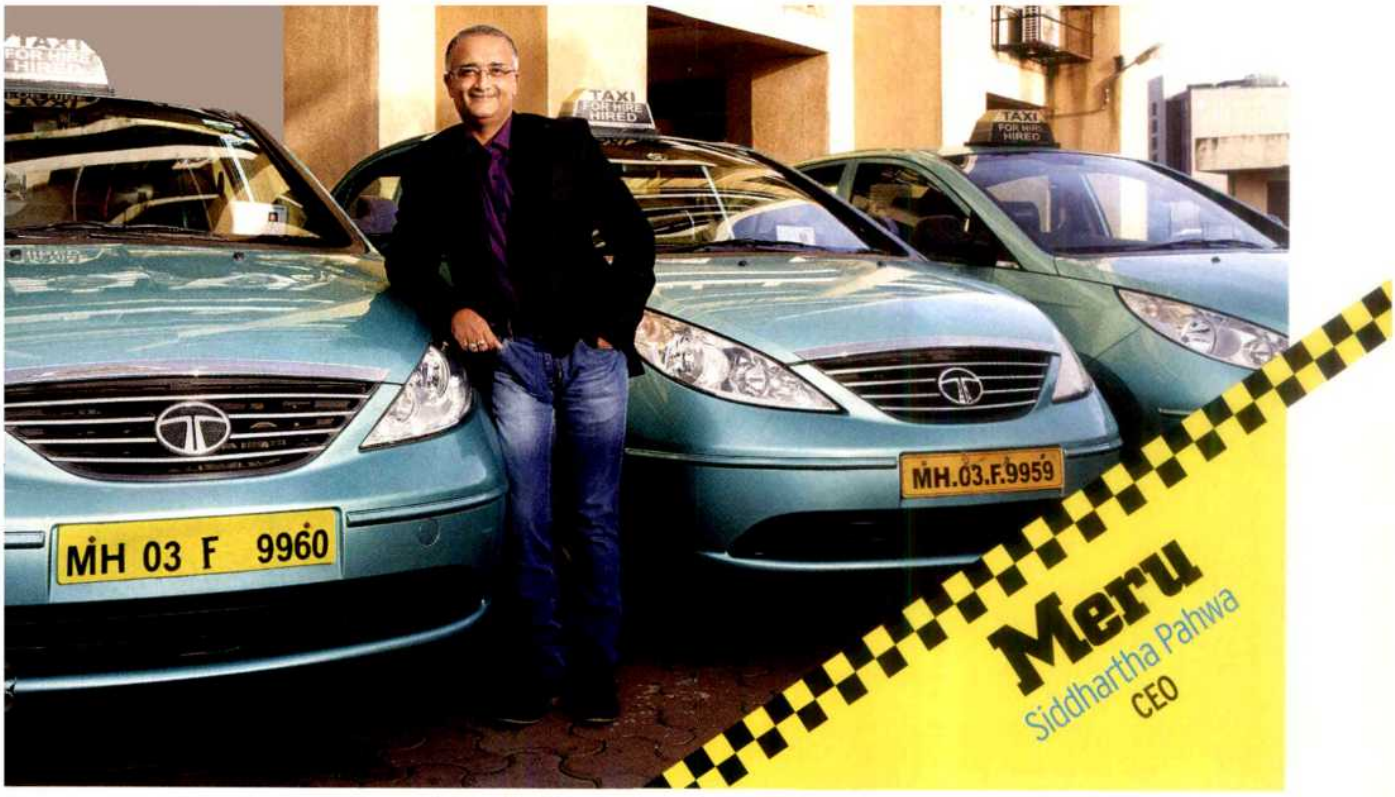
Almost all countries have the uberX service but only India has a cheaper version in uberGO. And there is a subtle difference in the operational model between India and the US. While in India only a driver with a commercial driver's licence and commercial insurance can enlist, in the US, anybody with a personal vehicle can become an Uber driver provided he has a driver's licence and insurance.

That, in fact, is Uber's global model and has heralded the rise of the on-demand economy or the 'gig economy' – flexible employment where the worker is more a contractor than an employee. It has sparked debates on changing labour market dynamics and spurred a new wave of micro entrepreneurship not seen before. Freelancers, like Chander Singh, can potentially make more money than his peers employed by a company to drive cars. Using technology, Uber has succeeded in matching sparse capacity with demand. In its marketplace, riders can get picked up in as little as five minutes while drivers now spend less time sitting idle. The success reflects in numbers: Uber operates in 329 cities across more than 59 countries.

The gig economy model is highly scalable because it is cost efficient. The burden of owning, licensing, insuring and maintaining a car rests with the driver, not Uber. The model, loved by investors, has led to a boom of on-demand start-ups across the world. And in India, too. Deep-pocketed venture firms have allowed on-demand companies to chase market share and gain scale even as they bleed heavily. Ola's losses, for instance, are growing every year. It had a net loss of ₹34.22 crore in 2013/14, according to disclosures made with the Registrar of Companies. In 2012/13, it lost ₹22.80 crore. Recently, Bloomberg News reported that Uber's global operating losses total $470 million but it did not mention the time period. That number may be outdated by now.

Uber-like services include Lyft in the US that has made an imprint in the car pooling market. Sidecar will help you reach a destination, and deliver a package along the same route, too. GrabTaxi matches taxis with passengers in Southeast Asia. In China, there is Didi Kuaidi, and it aggregates shuttle busses too. Need a quick ride in Mumbai? No problem. HeyTaxi will connect you with a two wheeler.

Ola was founded in Mumbai by IIT Bombay graduates Bhavish Aggarwal and Ankit Bhati. They shifted headquarters to Bangalore in



2012. Aggarwal says Ola's approach works better in India. "We have built a very Indian service with an Indian business model. For instance, we accept cash (in all cities), unlike Uber," he says. Customers have the option to pay by wallet as well. However, today, half of Ola's payments are made through cash.

When *Business Today* spoke to Aggarwal a few months ago, he boasted of running a call centre as a differentiator. "You can also book an Ola through a call centre. A lot of Indians are not comfortable booking through an app," he had said. But from August 1, Ola discontinued the call centre for bookings – the centres are only for support. That makes its model more Uber-like.

Meru is the only player amongst the three to have a hybrid model. According to CEO Siddhartha Pahwa, 70 per cent of its cars are today aggregated. The rest are owned by Meru and are given under a subscription model to drivers. "It creates a sense of ownership. The driver becomes owner of the car after four years," he explains.

The gap with Ola notwithstanding, both Uber and Meru say they have long-term plans for India. They are picking their battles, trying to outdo each other in innovation and promotions.

Ola introduced autos on its platform in October 2014; Uber announced it in April this year. In March, Ola introduced Ola Cafe, a food delivery service – customers can order through the app and Ola cabs will deliver the order in quick time. Uber doesn't have a similar product in India but Ola Cafe is similar to Uber's uberFRESH service in the US and uberEATS in Spain. Uber has run promotions around food delivery in India with uberGOURMET, a gourmet meal service curated by celebrity chefs. In April, restaurant discovery company Zomato said it has integrated an Uber button on its app that will help users book cabs to the restaurant they wish to visit. And after a rape incident in an Uber car in Delhi in December last year, both Uber and Ola introduced an in-app 'SOS' button.

Now for the other significant rivalry. Cab aggregators have heralded

MERU

- Founded in Mumbai, April 2007
- Active in 23 Indian cities
- Hybrid Model
- 70% cabs aggregated
- Cabs booked through app, website and call centres
- Does not aggregate auto
- Cash payments accepted everywhere/credit and debit card options/ wallet options

FUNDING RAISED
$125 million

INVESTOR
India Value Fund

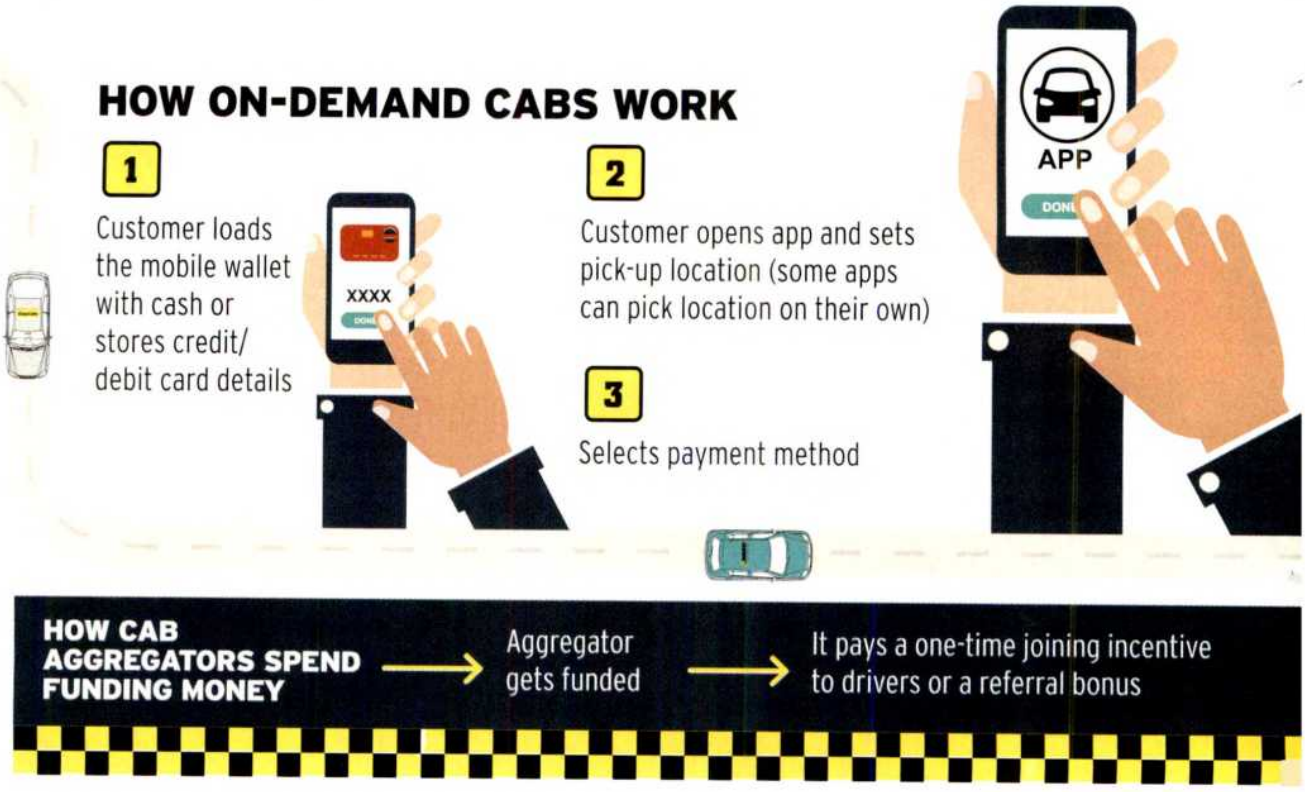
TOTAL INCOME

2013/14	2012/13
N.A.	N.A.

PAT

3.56	-31.11

Figures in ₹ crore; Source: ROC



an era of ridiculously low prices – a cab ride in some cities can be as low as ₹5 a kilometre. To be in business, all aggregators must discount the consumer on one hand but also compensate the driver on the other. Because securing supply is pertinent, that often means pampering drivers with all sorts of incentives. That is a game traditional radio taxi operators, focused on profitability, cannot play. "Because they (aggregators) have raised money, they are selling (fares) at half the price. Drivers are being lured by incentives and benefits which have no relation to the cost of transaction," says Rajiv Vij, CEO of Carzonrent, which runs radio taxi EasyCabs in four cities. He has 2,500 owned cabs and makes profits.

Now the War

During a 10-km journey from Kalkaji to Sunder Nagar in New Delhi one Thursday morning, Meru driver Nadeem couldn't stop talking about what a good time it is to be a driver. He didn't own the car he was driving and pays a daily rent of ₹1,200 to Meru. At times, he chooses to work throughout the day, catching up on sleep between 11 p.m. and 4 a.m. when demand for rides is low. He can make up to ₹2,000 a day, after paying Meru its daily share, fuel and maintenance expenses. But he has plans. "I will go to Uber once I buy my car," he says. Why not any other aggregator? "I have heard Uber pays an additional ₹250 as incentive for every completed trip. That is higher than everybody else."

The ability to discount rides for customers and incentivise drivers is directly proportional to the war chest each company has. Today, Uber has the largest globally – its commitment of $1 billion for nine months in India translates into a monthly spend of around $111 million. That is nearly the combined monthly cash burn rate of India's three largest e-tailers – Flipkart, Amazon and Snapdeal.

"We can expand and improve our operations, expand into newer cities, develop new products as well as payment solutions, and establish a great support network," says Amit Jain, the lanky President of Uber India. The company, which primarily operates through regional general managers and city general managers, made a significant departure from its global policy by appointing a country head for the first time, in May. The former Rent.com executive has now relocated to Gurgaon in India from the US. "With this investment and the strong rate of growth we are seeing, we expect to hit over one million trips per day in the next six to nine months," Jain adds. Uber currently completes 200,000 trips a day, say sources. Ola claims 750,000 plus rides a day, though its competitors dispute the number.

Uber launched in Bangalore, its first city in India. It is now in 18 cities, which makes India its largest geographic market outside the US. "We are continuing to see robust 40 per cent growth month-on-month and with more investment in product, hiring, and payment solutions, we expect to grow at an even faster rate," Jain says.

Neeraj Singhal, Head of Expansion for India at Uber, says the company offers various incentives to drivers from

4 Selects cab type and then places the order

5 Cab picks up the customer and the trip is tracked by GPS

6 At the end of the journey, the fare is charged directly to the digital wallet. In the case of cards, a customer enters CVV and verification password on the app. Payment can also be in cash

7 The aggregator transfers money to the driver's linked bank account in 24-48 hours

→ The consumer's ride is discounted and the driver is compensated for the loss → Aggregators pay drivers special incentives – for every trip, total number of trips completed in a day/week, etc.

"We can expand and improve our operations, expand into newer cities, develop new products as well as payment solutions, and establish a great support network"
AMIT JAIN/ PRESIDENT/ UBER INDIA

time to time but didn't disclose any details. The incentives differ in each city. In Delhi, for instance, Uber did not charge commissions from drivers between January and July. It has restarted taking commissions. Globally, it takes a 20 per cent cut from every completed trip.

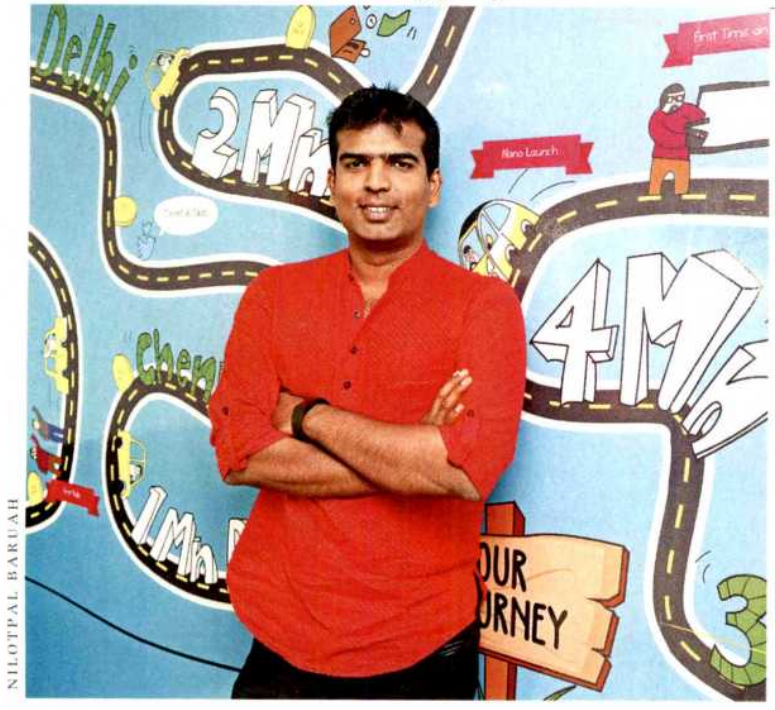
The company's appetite to drop prices and incentivise drivers can only head north. A *Financial Times* report in June said the company was close to securing another $4 billion in equity and credit financing – that would bring its overall funding to $10 billion, which "far exceeds the sums raised by Facebook or Google before their initial public offerings".

On February 27 this year, Uber announced it has dropped fares up to 40 per cent across 11 Indian cities including the metros. "Lower prices increase demand for rides, meaning drivers do more trips at every hour of the day; maximising their income any time they choose to go online," the company wrote in a blog. In July, the company added Coimbatore, Bhubaneshwar, Mysore, Indore, Nagpur, Visakhapatnam and Surat to its portfolio of cities in uberGO, costing between ₹5 and ₹7 a kilometre.

Can Bhavish Aggarwal stop Amit Jain?

Uber's runaway success globally is playing out a tad differently in the emerging markets of China and India where local players are more dominant. Like Ola, the dominant player in China is Didi Kuaidi – according to a Chinese media report, it has 80 per cent of the car hire service market as of June while Uber holds 11.5 per cent. Didi Kuaidi recently raised $2 billion to fight Uber.

Aggarwal needs more cash to continue playing the game he has thus far succeeded in. Ola has raised a disclosed amount of $652 million; overall, more than $700 million. A few media reports have indicated that the company is in the process of securing another $500 million. That would be good ammunition to retain its lead. Thus far, Ola has been using its cash shield effectively to undercut competition. It



NILOTPAL BARUAH

RATE WAR

What Ola and Uber charge in Delhi

Ola

TFS (Hatchback)	Mini (Hatchback)	Sedan	Prime (Corollas & Innovas
7	8	11	20

Uber

uberGo (Hatchback)	uberX (Mid-sedan)	UberBLACK (Sedan)	-
7	9	12	-

Radio taxis

20 and above for sedans

All figures in ₹ per km

"Nobody was using taxis for short distances. They used autos. We wanted to make it cheaper for the customer"
RAGHUNANDAN G./ CO-FOUNDER/ TAXIFORSURE

killed most of its domestic competition, including TaxiForSure.

Ola launched a new service, Ola Mini (small cars), "at auto fares" in February 2014 in some cities. In August 2014, Ola dropped its Mini rates from ₹13 to ₹10 a km and Sedan rates from ₹16 to ₹13 a km. That started a price war with TaxiForSure, which in November 2014 was forced to drop prices to ₹49 for four-kilometre in all cities it operates in, down from ₹200 for 10 km. TaxiForSure couldn't sustain these prices. "Nobody was using taxis for short distances. They used autos. We wanted to make it cheaper for the customer," says Raghunandan G., co-founder of TaxiForSure. Cab drivers, however, didn't agree to such low prices. "So we said whatever is the deficit we will pay. We started paying them ₹150 to begin with. Now it has dropped to ₹75 to ₹80 as the number of trips they do has increased and they earn more," he adds.

Raghunandan recently exited the company after it was acquired by Ola in March this year for $200 million. TaxiForSure couldn't raise the funding it would have required to discount customers and compensate drivers after the Uber rape incident resulted in regulatory uncertainty and spooked investors.

Ola continues to play the same game today. Between May 27 and June 29, the company revised its fares twice. First, it dropped its Mini prices to ₹8 a kilometre in Delhi NCR from ₹10. Then Sedan prices were slashed from ₹16 a kilometre to ₹11. In July, rates for TaxiForSure hatchbacks halved, from ₹14 a km to ₹7. That matches uberGO's fare. At current rates, Ola is undercutting Uber in sedans in Delhi (see *Rate War*). Radio taxis are far more expensive: their sedans don't cost below ₹20 a kilometre.

Radio taxi companies have christened Ola's pricing "predatory", a strategy wherein a player offers a service at extremely low rates to create a monopoly to drive out the competitors and create entry barriers. "Of late, we have observed that a few app-based cab aggregators are indulging in predatory pricing," says Kunal Lalani, Chairman of the Association of Radio Taxi India and owner of Mega Cabs that runs 2,300 owned vehicles and 250 aggregated ones. "The Competition Commission of India has initiated an investigation into this matter," he adds.

Meru CEO Pawha says he has observed that the app-based aggregators are incentivising their drivers at around ₹150 per trip to retain them in their network and compensate for their loss. He says Ola has a burn rate of $15 million to $20 million a month, Uber around $8 million to $10 million while Meru is

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at $1.5 million to $2 million per month. Uber's $1 billion commitment for nine months will make a mockery of this math. Ola didn't comment on its cash burn rate and an Uber spokesperson dismissed Pawha's estimate. "Our business and Meru's is very different. I would take those comments with a grain of salt," he said.

Ola's Aggarwal acknowledges that there are tactical incentive structures in some cities. Ola's gap funding – the money paid to the driver to compensate low trip fares – can be performance driven. "The incentive structure is based on customer feedback. So for X number of trips completed, you can qualify for Y amount. There could be more incentives on special days such as Dussehra," a spokesperson says.

Meru, which has a funding of $125 million from India Value Fund, says it doesn't have to offer incentives to drivers in the way Ola and Uber do. "A Meru driver earns about ₹2,500 of consumer revenue everyday, which is significantly higher than the revenue given by our competitors," says Pahwa, who was in a combative mood. "Meru charges ₹20 a kilometre. Our trip size is roughly 14 to 15 km. The competition is able to charge about ₹12 to ₹14 a kilometre from the consumer and has a trip size of seven to 10 kilometre," he says.

The race, though, has just begun. Since August last year, Meru has run a happy-hour scheme, 30 per cent cash back offers from time to time, and a 25 per cent discount booking offer. A radio promotion in Delhi is currently urging people to download its app. The company may be burning far less cash right now but will have to do more if it were to remain relevant.

THE REGULATORY HEADWINDS

Ola and Uber non-compliant with the Modified Radio Taxi Scheme in Delhi

The two aggregate AITP cabs, which run on diesel. It violates Supreme Court order mandating commercial vehicles in the city to run only on CNG

Regulatory Skirmishes

The rapid rise of Uber globally, and other app-based cab aggregators, has come with its own set of headwinds – none more threatening than a tsunami of regulatory battles the companies have to ward off. Protests and lawsuits against Uber have surfaced from Paris to San Francisco. The fate of Uber and Ola has a common thread here. Scales may tilt in favour of whoever handles the regulators better.

City governments are worried about the safety of commuters. In Delhi, after the rape incident in December 2014, sporadic complaints of indecent behaviour have been made. In July, a lady complained of a TaxiForSure driver masturbating while driving her. "He had little control over the wheel as well as his perverseness. He had a smile on his face that will haunt me for nights to come. A #PSYCHOTIC man with a severe chemical imbalance for a driver is nothing but serious," she later wrote in a Facebook post that went viral. A similar complaint surfaced from an Uber-user in Kolkata.

Governments are also concerned about a host of other issues, from whether the app-based service providers are

UBER CONTROVERSIES: A SAMPLING

December 5, 2014: An Uber driver is accused of rape by a woman coming home from Gurgaon to Delhi

December 6, 2014: A 46-year-old driver is accused of driving a woman in Boston to a secluded spot and raping her in the back seat

March 18, 2015: uberPOP banned in Germany; a court says transport laws violated

May 28, 2015: South Korea prohibits taxi services by private drivers; UberX is the reported target

June 25, 2015: Paris protests turn violent; French taxi drivers block traffic

July 25, 2015: A 56-year-old driver is accused of following a woman into her home in Dallas and sexually assaulting her

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SAY HELLO TO AUTOS

Much like ants, yellow icons move around in Uber's map – they are the autos. Indians do not just take cab rides; much of India, in fact, moves in three wheelers. And auto aggregation is picking up pace. Uber announced autos in April 2015 and says the service has picked up "fantastically well".

"It's been a game changer for many auto drivers who are now not restricted to business based on line of sight. For many, becoming a partner driver with Uber was transformational and a first introduction to smart technologies, GPS navigation and electronic banking," says an Uber spokesperson.

Ola introduced autos before Uber did – in October 2014. The company claims more than 50,000 autos registered on its platform, the maximum being in Bangalore and Chennai. Taking autos in both these cities was a headache for commuters: autos rampantly overcharged or refused rides. Also, these cities are more reliant on three wheelers. Mumbai has a taxi culture whereas Delhi has a metro.

"The auto app for the driver is different from what a cab guy gets. It has seven regional languages," says an Ola spokesperson. Requests for autos are broadcast within a 1 km distance and the first auto to accept gets the business. In the case of cabs, Ola directs the request to the nearest cab.

The three wheeler market is getting disrupted, too.

meeting local transport regulations to if they should classify drivers working on their platforms as employees. The 'contractors' versus 'employees' debate is particularly hot in the US in the run up to the presidential elections. And that is something that questions the very basis of the gig economy model. In July, Democratic presidential candidate Hillary Clinton commented: "This on-demand or so-called 'gig' economy is creating exciting opportunities and unleashing innovation, but it's also raising hard questions about workplace protections and what a good job will look like in the future."

If you are not an employee, there are no benefits – no company insurance and holidays, for instance. At the heart of this debate is the control on-demand companies exert on the contractor. A Uber driver might be independent, but his routes are monitored and the fare he charges are regulated by the company. That makes him less of a freelancer.

In June, the California Labor Commissioner's Office said Uber drivers are employees and asked Uber to pay Barbara Ann Berwick, who worked as a driver for a few weeks, $4,152.20 in expenses. The commission's ruling, however, is non-binding and applies to a single driver. Uber is facing a similar legal action in the UK, brought about by the union for professional drivers, GMB. Uber is appealing the California order.

Can this spill over to India? Manish Sabharwal, owner of staffing company Teamlease, says chances are low unless Uber and Ola goof up. "If they don't make payments on time, there might be an issue. Otherwise, I am not sure. Self-employed drivers in Uber and Ola have much higher productivity than *kaali-peeli* taxis (black-and-yellow coloured local taxis) because of capacity utilisation," he says. "If you make them (drivers) employees, the on-demand model doesn't work. Uber is a labour market app that allows higher capacity utilisation of self employed people. Self-employment is a different contract and a different decision."

In India, Delhi has been the hotbed of legal tussles ever since the Uber rape incident of December 2014. After the incident, the Delhi government banned the services of app-based aggregators who were non-compliant with the Modified Radio Taxi Scheme of Delhi's Transport Department. Ola says it does not require such a licence since its cabs have All-India Tourist Permits (AITPs). However, the AITP cabs run on diesel and that violates a Supreme Court order mandating commercial vehicles in the city to run only on the less polluting compressed natural gas (CNG). Both Ola and Uber have continued to operate in Delhi without a Radio Taxi licence since the state government found it difficult to implement the ban. The Delhi government, in the meantime, refused these companies' applications for radio taxi licences.

Ola had approached the Delhi High Court seeking quashing of the ban but the court on July 29 refused to provide interim relief, saying the company failed to comply with the ban since January as also the use of CNG vehicles instead of diesel ones.

2015-YEAR OF TAXPAYER SERVICES

"No man is an island, Entire of itself, Every man is a piece of the continent, a part of the main."- *John Donne*

As an individual you cannot possibly do all the things the Government does. Public Health, Education, Emergency Services, Programs supporting poor, aged, disabled & unemployed, Infrastructure Development, Environment Protection etc. are issues addressed not individually but by pooling tax resources.

Service Tax is therefore a due we pay to enjoy the numerous vital benefits that the Government provides for our society.

Oliver Wendell Holmes, Jr. might have been talking about Service Tax when he said that,

"I like to pay taxes. With them I buy civilization."

A nation is made, when taxes are paid

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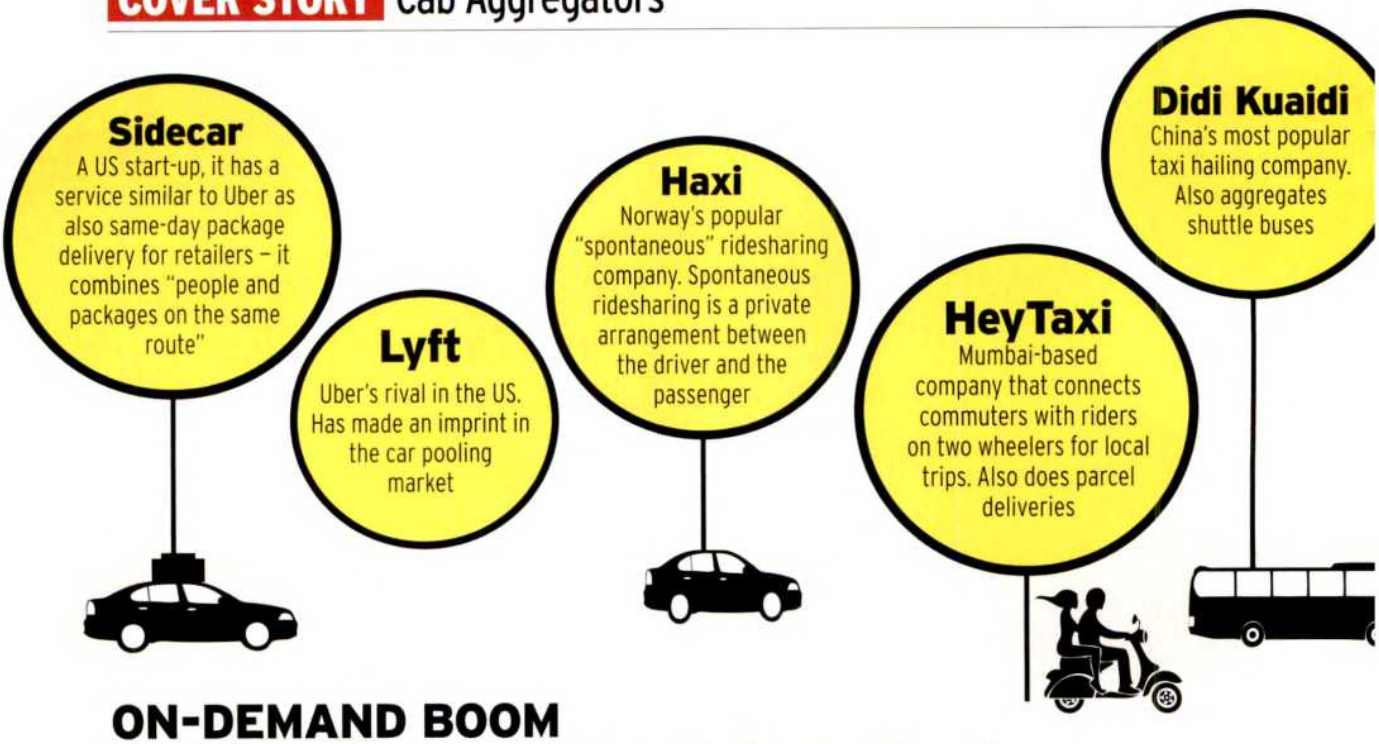


ON-DEMAND BOOM

Ridesharing services are growing in popularity across the globe

The High Court observed that the Supreme Court's orders with regard to ban on diesel taxis has been "violated with impunity" and that the "petitioner believes that it is not bound by the law". The court also sought an affidavit from Ola stating it would abide by the court judgments.

"The main problem is not rape. It is the switch from diesel to CNG. It will cost drivers ₹50,000," says Vijay Panjwani, a Supreme Court lawyer who appears for the Central Pollution Control Board. "Every *kaali-peeli* taxi has made the switch in Delhi; so have all autos. It will apply to everybody in the National Capital Region," he adds.

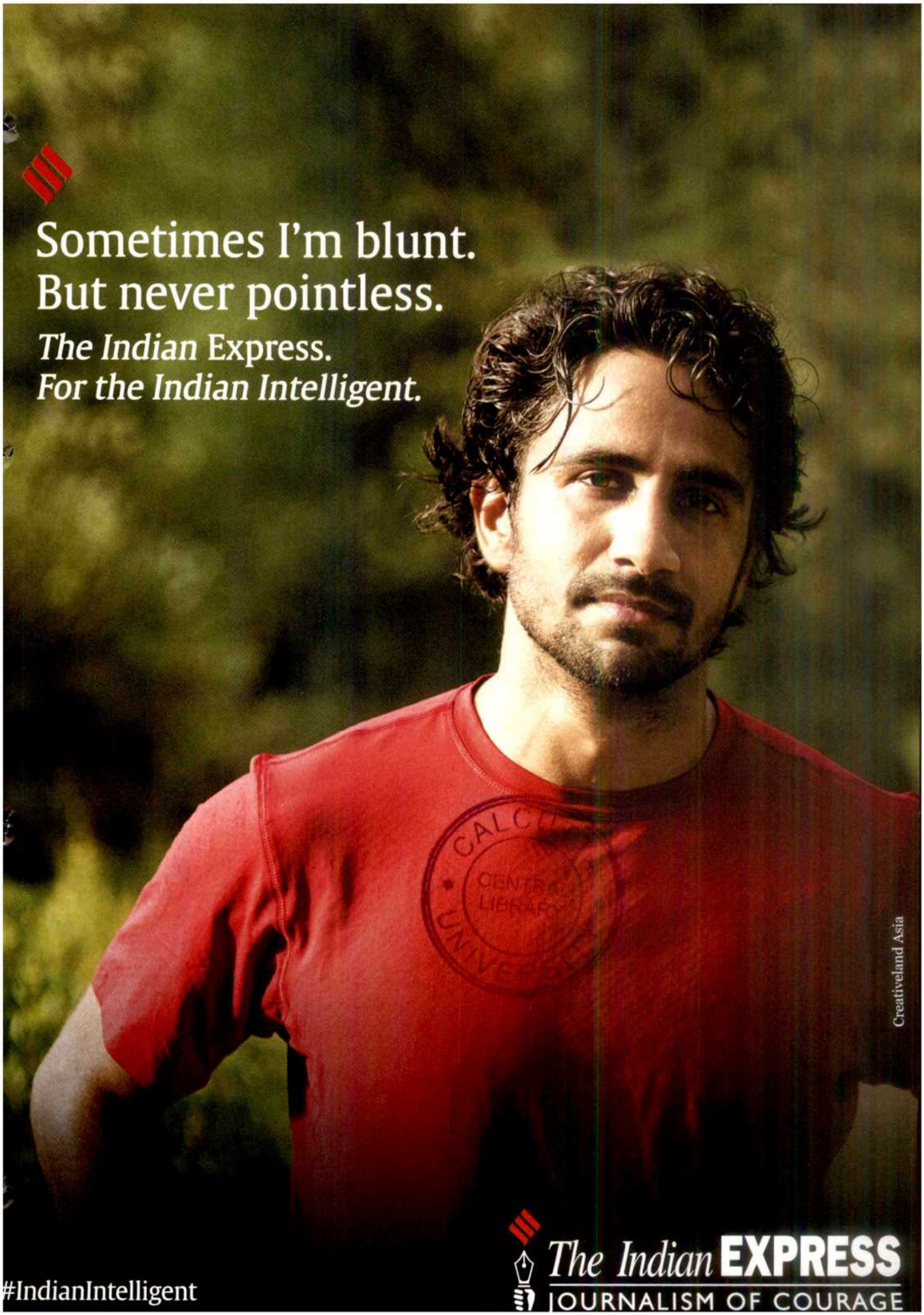
Cab aggregators, off the record, say it will cost drivers more – in the range of ₹60,000 to ₹90,000. They would be unwilling to make that investment and may well ask the app companies to fund part of it. That would imply significant expense.

It remains to be seen how app-based aggregators would respond and handle the court's observation. In the US, where Uber is facing resistance from some cities, it has adopted an aggressive approach. Take the case of New York City. The city council planned to limit Uber's addition of drivers since it was studying the impact of for-hire vehicle services on congestion. Uber launched a high-decibel campaign – ads targeting Mayor Bill de Blasio said many potential jobs are at stake. The company added a "de Blasio" feature in its app – a click of the button showed "No Cars"! The city, in July, ate humble pie, abandoning its plans.

Can a similar feature work in Delhi? As of now Uber appears happy with low-decibel marketing. On July 28, a day before the Delhi High Court refused to provide Ola interim relief, Uber came out with a press statement, a "response" to the diesel ban. "We urge the government to explore solutions that balance the right to livelihood of tens of thousands of drivers while creating a favourable environment that supports a transition to cleaner fuel alternatives and more efficient transportation models," it said.

Meanwhile, in the middle of regulatory exchanges, three stakeholders appear to be delighted. Investors, who continue to flock in; drivers, who can now earn much more; and, of course, riders can reach home from their offices in a sedan at the price of an auto rickshaw. ◆

@Goutam20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But never pointless.
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Chairman's Speech at Cairn India's

Good Morning Ladies and Gentlemen,

On behalf of the Board of Directors, I am delighted to welcome you all to the Ninth Annual General Meeting of your Company.

Thank you for joining us today.

The oil and gas sector plays an important role in the Indian economy as the sector is one of the largest contributors to the Government of India's revenues. Numerous resource rich countries offer useful lessons for India to translate resource wealth into broader economic development. Given their significant economic linkages, natural resources sector can be used as a platform for socio-economic development.

The United States of America offers an excellent example. Its oil production growth in 2014 was highest in more than 100 years. U.S. is redefining the global energy landscape. Such turnaround in hydrocarbon sector offers constructive lessons for energy import dependent countries like India.

Our nation is blessed with significant untapped oil and gas resources. However, the sector needs encouragement to maximize this potential. We need policies that are tailored to reflect and respond to India's status of an oil and gas importer. Investment climate and governance are key drivers for investments. A stable and predictable investment regime and a consistency in policy will help enhance confidence besides attracting domestic as well as foreign investments in the oil and gas sector.

An oil and gas regime that integrates these philosophies, will not only spur domestic exploration and production activities, it will significantly reduce our dependence on expensive imports.

Your Company's role in achieving Energy Security for the Nation - a strategic perspective

The Indian economy is highly dependent on oil and gas imports. During last fiscal, over 78% of oil and over 36% of gas consumption of India was met by imports at a cost of over US$ 110 billion. Given the growth projections, this demand supply gap is expected to grow. International Energy Agency's World Energy Outlook 2014 indicates that India's annual net fossil fuel import bill will be over US$ 500 billion in 2040. Clearly, this has serious ramifications for the Indian economy.

It was thus heartening to learn that the Hon'ble Prime Minister of India called upon all stakeholders to increase the domestic production of oil and gas to reduce import dependence from 78 % to 67% by the year 2022. Our Prime Minister emphasized cooperation as a means to achieve energy security in India, a vision, we also share.

As one of the largest crude oil producers in India, your Company assumes a very important and responsible role in reducing the dependence on oil imports. Over the last many years, Cairn India has played a pivotal role in meeting the country's energy needs. For instance, in FY2015, Cairn India's operations reduced the Nation's crude oil import bill by over Rs. 38,500 crores (over US$ 6 billion).

You will be happy to learn that during FY2015, your Company made a significant gross contribution to the Government exchequer – Rs. 19,047 crores (US$ 3.1 billion) thereby making your Company the single largest private sector contributor from the hydrocarbon sector. We look forward to an encouraging business environment and policies from a progressive government to maximise the potential of the sector, which in turn will help enhance our efforts and contribution to nation building. With this larger context, let me now talk about your Company's performance. After a relatively stable oil price at around US$ 100 per barrel, the price came down sharply, during the period starting June 2014 and continues to remain low.

However, your Company's inherent strengths and proactiveness helped it report a resilient performance. We reshaped our strategy which will not only help us face the present downturn, but will also enable us to emerge as a progressive, growing and even more efficient business in future.

Our Assets

Our oil and gas fields, including Rajasthan, are assets of national importance contributing over 27% of India's domestic oil production in the last fiscal. During the year, the Rajasthan block also witnessed an increase in commercial production and sales of natural gas as our core fields continue to perform well. The block has significant potential and we are committed to maximize economic recovery to enhance stakeholder value. FY2015 saw many firsts for the Rajasthan block.

Your Company executed the largest exploration and appraisal programme till date in a year by drilling 34 wells. Nine out of 12 exploration wells drilled during the year encountered hydrocarbons.

Similarly, your Company started polymer injection in Mangala field in Rajasthan. Mangala Enhanced Oil Recovery (EOR) project is amongst the largest polymer flood EOR programmes anywhere in the world. This indeed is a significant achievement for your Company and is a testament of your Company's strong capability and technical expertise. In addition, the year saw successful completion of ASP (Alkaline-Surfactant-Polymer flooding) pilot at Mangala, debottlenecking and connection of Mangala Processing Terminal to the national grid.

Your Company received regulatory approval for the development plan to enhance production at Raageshwari Deep Gas field. Natural Gas in the Rajasthan block represents a good opportunity and we are well positioned to leverage this prospect.

Coming to our other producing assets, both our offshore blocks improved their performance during the year. They remain excellent examples of what Cairn India can accomplish through its prudent reservoir management practices and innovative application of technologies. Ravva block boasts of a recovery factor of approximately 50%, compared to general recovery rate of around 30% in similar kind of fields across the world.

You will be happy to learn that through application of high-end technologies, Ravva block saw an increase in oil production in the 20th year of its operations.

HSE and Community engagement

Your Company is committed to maintain the highest international standards of Health, Safety, and Environmental performance. The health and safety of our employees and contractors remains at the center of everything we do. All our producing sites are compliant with internationally accepted environment, health and safety standards. The company has maintained an impressive Health Safety and Environment record over this year, as in the previous years. Our Ravva asset, Raageshwari Gas Terminal and Cambay block received awards under various categories from the Directorate

9th Annual General Meeting

General of Mines Safety as well as from various industry associations. With expanding scale of operations, we will continue to accord even greater importance to our HSE standards and strive for continuous improvement. The company received the 'Institute of Public Enterprise Excellence Award' in the development sector for contributing to the society at large.

This is a testimony of our continuing efforts towards empowering local communities in our operational areas. Through our engagement programmes, we touch and have positive impact on around 700,000 community members. We continue to expand the coverage of our community partnerships through strategic, wider and more inclusive programmes.

I am happy to share that despite the fall in oil prices, which impacted revenues, your Company remained focused on its drive to continuously improve efficiencies and minimize operating costs. Thus, we were able to pay the highest dividend in the Company's history during the year, amounting to approximately 45% of annual consolidated net profit.

Corporate Merger

In line with the objective of simplifying the group structure, on 14th June 2015 Vedanta Limited and Cairn India announced a merger between the two companies. The Boards of Vedanta and Cairn India have unanimously recommended the merger, which we are confident will benefit the shareholders of both the companies.

This is a significant milestone in your Company's journey. Not only will this merger de-risk earnings through increased diversification from exposure to a larger commodity mix, it will also help garner benefits of increased economies of scale. You will get access to Vedanta's tier-one metals and mining assets, which are well-invested, low cost and have a long life. We are also committed to sustain and enhance the Cairn India Brand and maximize its potential. This merger offers long term sustainable value enhancement for all shareholders.

The path ahead — Technology will continue to play a key role in Cairn's growth

Continual investment is a key element of our growth strategy. We are committed to strategic investments in the sector to help increase domestic production of oil and gas. The adoption of technology and the innovative application of techniques has been a cornerstone of Cairn India's successful strategy for many years.

You will be happy to learn that your Company was the first Indian company to deploy latest unconventional drilling techniques that are being used in North America. This includes drilling of horizontal wells in complex geology – to maximise recovery over the economic life of fields. Going forward, early and innovative technology infusion will continue to remain a key element of our growth strategy.

It will play a major role in the development of the Barmer Hill formation in Rajasthan and increasing gas production at the Raageshwari Deep Gas field. Given their significant growth potential for business, both Barmer Hill Formation and Raageshwari Deep Gas field are a priority for us.

We have an excellent suite of world-class assets and we will continue to operate our assets efficiently, execute the strong pipeline of projects and focus on growing our oil and gas portfolio.

We will continue to strengthen operational efficiencies to improve overall costs and follow a Sustainable Development Model that focusses on Environment, Safety, Communities and best in class Governance Practices.

Acknowledgements

I would like to welcome Mayank Ashar, who joined Cairn India as Managing Director and Chief Executive Officer in November 2014. A veteran in oil and gas sector, Mayank has held top leadership roles in global organizations and brings with him a wealth of experience spanning over 3 decades. I am confident that Mayank will play an important role in shaping our business.

As I conclude, on your behalf, I would like to thank all the employees of Cairn India for their strong focus, commitment and contribution to the success of your Company. The leadership team is supported by a talented and dedicated set of professionals who continue to make a difference and create value for the company. The support of the Government of India, State governments, ONGC and our other joint venture partners, business partners and local communities has played a significant role in our success. On behalf of all of us, I thank them for their collaborative approach and constant support.

I remain confident that your Company will play an increasingly crucial role in reducing our Nation's dependence on costly imports and thereby enhance energy security for the Nation and play a transformational role in the nation's development and in the process, deliver long-term value for shareholders.

On behalf of the Board of Directors and the employees of Cairn India, I once again thank you for your enduring support.

Navin Agarwal
Chairman, Cairn India Limited

July 21, 2015

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THE RUPEE VENTURES FORTH

Wealthy Indians have begun investing in venture capital funds for the first time, a development that will help Indian start-ups immensely. By TASLIMA KHAN

AJAY THAKURI

Funds dominated by Indian investors

KAE CAPITAL	BLUME VENTURES	INDIA QUOTIENT	ORIOS VENTURE
STARTED IN: 2010	2011	2012	2014

Sudhir Sethi, founder of IDG Ventures India, spent most of his childhood overseas as his father was in the Indian Foreign Service. Returning to India, he worked for two decades in computers – his employers included HCL and Wipro – before starting his investment career in 1998 with Walden International India, the first Silicon Valley-based venture capital (VC) firm to set up an Indian arm. Though Walden has funded numerous Indian start-ups, its investors, or limited partners (LPs) as they are called in VC jargon, remain predominantly people and companies based outside the country – especially endowment funds, pension funds and large banks. It is the same with IDG, which Sethi joined in 2006, as well as the other big players in the Indian VC sector – Sequoia Capital, SAIF Partners, Accel Partners, Helion Advisors. All of them are dominated by foreign LPs.

The latest India-focused fund IDG is raising, however, is different. Though unwilling to reveal the proposed fund size, Sethi confirms it will have a significant contribution from investors within India, spread across eight cities. These even include a Mumbai-based *itar* (traditional perfume) manufacturer! "I'm a desi guy now," says Sethi.

IDG is not alone. In the past three years – and for the first time – a clear trend of Indian participation in venture funding of start-ups has become visible. No doubt this is still small – a mere three per cent of the total. It is also confined to family firms of high net worth individuals (HNIs), rather than financial institutions as in markets like the US. "Other than the Small Industries Development Bank of India (SIDBI), most institutions in this country don't understand either venture capital or start-ups," says Karthik Reddy, Managing Partner at VC firm Blume Ventures.

Still, a beginning has been made. Average assets under management (AUM) of HNI family firms are between ₹200 crore and ₹250 crore, though the highest is around ₹5,000 crore.

Industry insiders maintain the Indian reluctance was not due to any shortage of investing funds in the country, but simply lack of awareness. The increasing media coverage of start-ups and their funding, however, has finally made investors aware that start-ups can be looked at in the same way as any other asset class, such as bonds, mutual funds or land. "Putting money in a VC fund is much like investing in mutual funds because these funds diversify your investment – and hence your risk – across several start-ups," says Sasha Mirchandani, co-founder of VC firm Kae Capital and the association of angel investors, Mumbai Angels Network. "It is much

Fund Bonanza

VC firms which have raised funds recently:

Sequoia Capital
$740 million

SAIF Partners
$350 million

Accel Partners
$305 million

VC firms in the process of raising funds:

Nexus Venture Partners
$400 million

Helion Advisors
$250-300 million

Kalaari Capital
$275 million

Blume Ventures
$60 million

Seedfund
$60 million

IDG Ventures
Not disclosed

"ONE OF THE BIG REASONS WHY SOME COMPANIES MOVE OUT OF INDIA **IS THAT THEIR INVESTORS ARE OVERSEAS AND INFLUENCE THEM INTO DOING SO"**

SUDHIR SETHI, Founder, Chairman & Managing Director, IDG Ventures India

less risky than investing in a single start-up."

Likely Impact

Indian start-ups have already attracted billions of dollars from global funds. But substantial Indian investment is bound to boost local start-ups even further and make it still easier for them to get money. "Why should we go to the US if we can get enough capital in India," says Mirchandani. The kind of start-ups being promoted, however, is likely to stay the same, with the technology reliant ones enjoying a distinct advantage. "Only the sources of capital are changing," says Rehan yar Khan, a well-known angel investor who set up the ₹300 crore VC firm Orios Venture Partners last year, with funds drawn entirely from Indian investors.

The first fund in India which tapped only Indians was Blume Ventures Fund I, which raised $25 million in 2011. It was not an easy task. "We had to convince investors we are here to last at least 20 years as an institution," says Reddy. The money has been since deployed across 65 start-ups. Mirchandani's Kae Capital, which started around the same time, has no doubt drawn funds from Sequoia Capital and SAIF Partners, but also from the likes of Deep Kalra, founder of MakeMyTrip.com, Anupam Mittal of Shaadi.com and Naveen Tewari of InMobi, in their individual capacities. So too India Quotient, begun in 2013 by Anand Lunia, former Managing Partner at VC firm Seedfund, has drawn investments from Times Internet, Ronnie Screwvala's Unilazer Ventures and SIDBI, as also from overseas funds such as Omidyar Network which operates an India arm.

How successful have VCs using Indian funds been so far? It is still early days, but Blume Ventures has already had a few successful exits such as ZipDial and TaxiForSure. ZipDial was acquired by Twitter and TaxiForSure by Ola Cabs in the early months of this year. Again, around 25 per cent of the start-ups Blume invested in have managed to attract follow on funding. Blume is now raising a fresh $60 million fund, 40 per cent of which will come from Indian investors. So too India Quotient is raising $25 million in a new fund, much higher than its first fund of $5 million.

What sets apart a number of the Indian VC funds from their overseas counterparts in India is also their willingness to invest in start-ups at the business-plan stage, even before these have begun earning revenue. Typical investments are around $200,000 to $250,000. Until now, while Series A and subsequent funding for successful start-ups had been growing, pre-revenue funding – which is obviously more risky – was hard to come by. Entrepreneurs had to largely use their own funds or turn to personal sources. With this gap starting to close, industry sources believe, the funding ecosystem for start-ups in India will be complete.

Growth in the number of Indian LPs may also stem the trend of Indian start-ups shifting their headquarters overseas after a few years. "One of the big reasons why some companies move out of India is that their investors are overseas and influence them into doing so," says Sethi of IDG Ventures. Further, Indian LPs will help not only start-ups but Indian VC firms as well, increasing their deal flow. "With Indian investors coming in, the dollar investor will also be prompted to put in more," Sethi adds. It will also assist in finding the right start-ups

Interview with Sudhir Sethi at
businesstoday.in/idg-sethi

Orios Venture Partners' **Rehan yar Khan** (L) and Blume Ventures' **Karthik Reddy**

RACHIT GOSWAMI

to back, since Indian LPs would be people in close touch with premier educational institutions.

Indian investment in start-ups is set to further increase with the Securities and Exchange Board of India (SEBI) having eased the norms for their shareholding and disclosure in early June, making it easier for them to list on the bourses. It has also set up an 18-member committee headed by Infosys Chairman Emeritus N.R. Narayana Murthy to recommend a new regulatory framework for start-ups and alternative investments.

Larger Funds Untouched

The larger funds, however, remain untouched by this development. "Domestic LPs don't apply to us as our association with foreign LPs has been very strong over the past 15 years," says Mayank Khanduja, Vice President, SAIF Partners. But these funds too have been booming, with the dollars pouring in (see *Fund Bonanza*).

"OTHER THAN THE SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA, MOST INSTITUTIONS IN INDIA DON'T UNDERSTAND VC OR START-UPS"

KARTHIK REDDY,
Managing Partner, Blume Ventures

The biggest among them, Sequoia Capital, which has been in India since 2006, launched its $530 million India-focused fund IV in May 2014. In April this year, it topped this with an additional $210 million, making it a $740 million fund. A month earlier, in March, SAIF Partners closed its India Fund V at $350 million. Again in March, Accel Partners India announced a $305 million Accel India Fund IV. Nexus Venture Partners is raising a $400 million fund called Nexus Opportunity Fund. "One of the reasons VC firms are raising more funds is because we want to stay longer in the companies where we have invested," says Sandeep Singhal, co-founder of Nexus Venture Partners. ◆

@KhanTaslima

How a few companies are laying the foundation to make India a hardware product nation.

By VENKATESHA BABU

Playing Hardware Hardball

ANJAN KUMAR
CEO, Greendzine (Irrway)
Putting traffic policing on fast track

DEEPAK G. PAWAR

Last year, Mysore witnessed an inspiring partnership between policing and technology. As tourists poured in from India and around the world during the *Dusherra* festival, overflowing the throughway of the city of palaces, tourists and residents were greeted by khaki-clad cops zipping past in a never-before-seen trendy three-wheeler, guiding tourists and managing traffic congestions with equal ease.

At the centre of the city police's efficient handling of the situation was the battery-powered personal mobility device developed and built by Greendzine Technology, a Bangalore-based tech start-up founded by former TCS engineer N. Anjan Kumar. Irrway, a far cousin of the more well-known Segway, costs between ₹40,000 and ₹80,000 – a fraction of the ₹3.5 lakh price tag of the entry-level US-made product. The price point and the efficiency of Irrway have not only made the Delhi, Bangalore and Chennai police sit up, but hotels, resorts, IT parks and up-market townships are also looking at it with equal zeal.

Like Kumar, Abhishek Latthe and Apurva Shetty had set their eyes on the stars to find success on ground. The two 26-year-old electronics engineering graduates set up Sensegiz in February 2013. Today, the Belgaum-based company has two subsidiaries in the US and Ireland, which handles its sales and marketing, and ships its two indigenously-built products – Star and Find – to over 50 countries, including the US and Japan.

Star, priced at ₹7,000, is a wearable smart tech product, which can be clipped to clothing or worn as a band. It triggers automatic alarms on a paired smartphone to let a loved one know if the user falls or experiences a medical emergency. It also has a panic button, and can track fitness and sleep quality, apart from controlling simple phone functions. Find, the other product, is a simple Bluetooth-enabled tracking device that costs ₹1,500. The company has sold more than 12,000 units of Find in the past year and expects a similar response to the recently-launched Star.

Greendzine and Sensegiz are part of an emerging breed of home-grown start-ups designing and manufacturing IT hardware, a segment in which India lacks sorely, despite a promising start way back in the 1950s and, later, a second coming in the '80s.

10 REASONS WHY PRODUCT COMPANIES ARE THRIVING

ECOSYSTEM: India has the third-largest start-up ecosystem in the world

3D PRINTING: Advent of 3D printers and scanners means experimenting is now easier and affordable

GROWING LOCAL MARKET: A large market creates local champions who can expand overseas

LOWER CAPEX: Cloud computing, SaaS and open-source architecture have lowered capital expenses

PLAYING AROUND: Platforms, including Raspberry Pi and Arduino, have fuelled experimentation

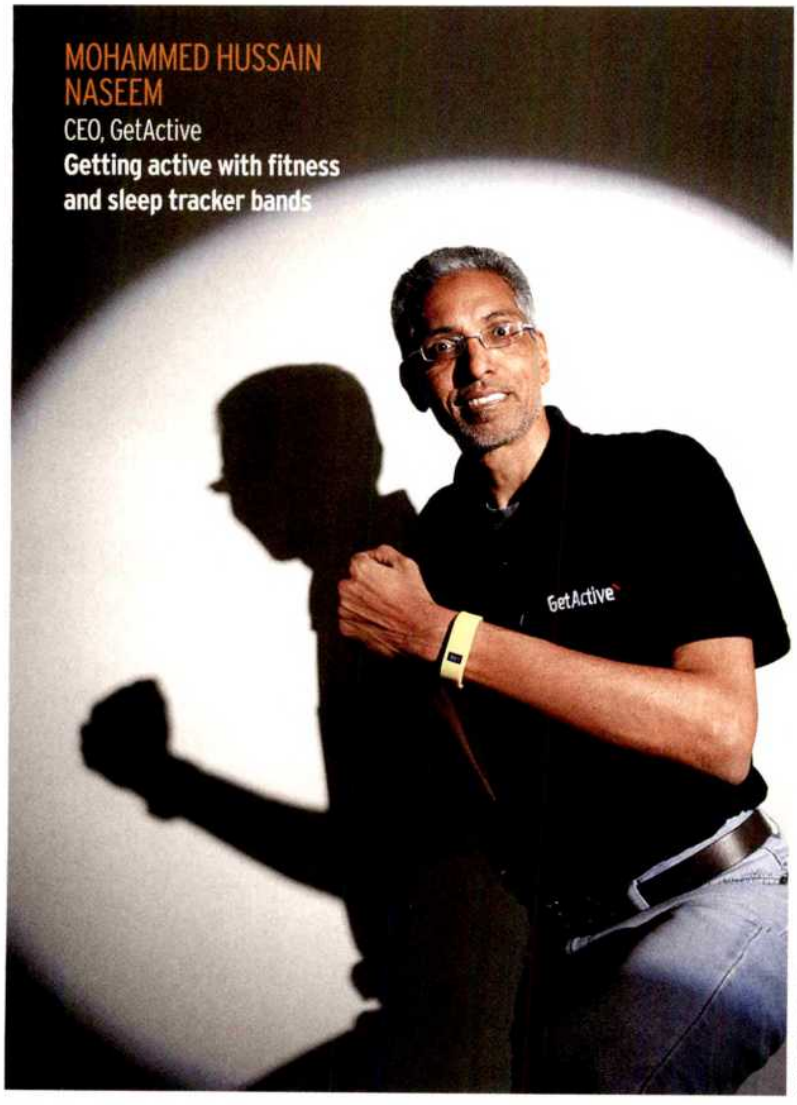
TALENT POOL: Indian services companies are strong in embedded software and IC design, which can be tapped by product companies

RISK APPETITE: Having tasted success in services, a number of entrepreneurs believe they can succeed in hardware too

RISE OF E-COMMERCE: It has brought opportunity for players making hardware in areas such as robotics and logistics

MENTORSHIP: Emergence of industry bodies such as iSpirt and TiE has helped product companies thrive

FUNDING: There is no shortage of angel investors who are interested in product companies



DEEPAK G. PAWAR

Though India's start-up ecosystem still favours the country's $146 billion software services sector, and product manufacturing is considered a foolhardy option, there is optimism among industry observers. Experts say the start-up ecosystem has been witnessing greenshoots in design-led innovation over the past two to three years and may see rapid growth by 2018.

The central government's Make in India initiative and a spurt in interest shown by angel investors and venture capitalists to fund tech hardware start-ups might just give the much-needed boost to the industry. Though venture funding into hardware tech start-ups is abysmally low, with a recent report pegging the figure at around $40 million in the past year, entrepreneur-turned-angel investors are keeping a close watch on the developing success stories in this space.

However, to compete with the best in the world, India has to emerge out of the prototype phase into mass manufacturing of technology-driven hardware. That said, as setting up of infrastructure to scale up manufacturing takes time, India must, meanwhile, establish itself as a product innovation hub, despite a few failed attempts. And, if Information Technology Minister Ravi Shankar Prasad is to be believed, the Centre is ready to travel the distance. "When it comes to technological innovations and manufacturing we will see a few failures along the way, but we have to be patient. Only then will we taste success," Prasad said at an *India Today* event recently.

So, as India take steps towards becoming a 'product nation', instead of remaining buried under a generic name – as the world's back office or an IT and ITeS services hub – the country will need to support individual efforts like that of Abhinav Verma of LiveBraille, as well as team players like Samay Kohli and Akash Gupta of Gurgaon-based Grey Orange Robotics, or Sagar Apte and Deepak Thomas of CarIQ, which operates out of Pune.

More Kids Play Hardball

Verma, 20, is not just another engineering college dropout, but has won many awards as a social innovator with LiveBraille – a 24-gm electronic travelling aid for the blind that costs just ₹2,000. The battery-operated portable device uses sensors to communicate the distance of objects through vibrations and helps the visually challenged navigate the world better.

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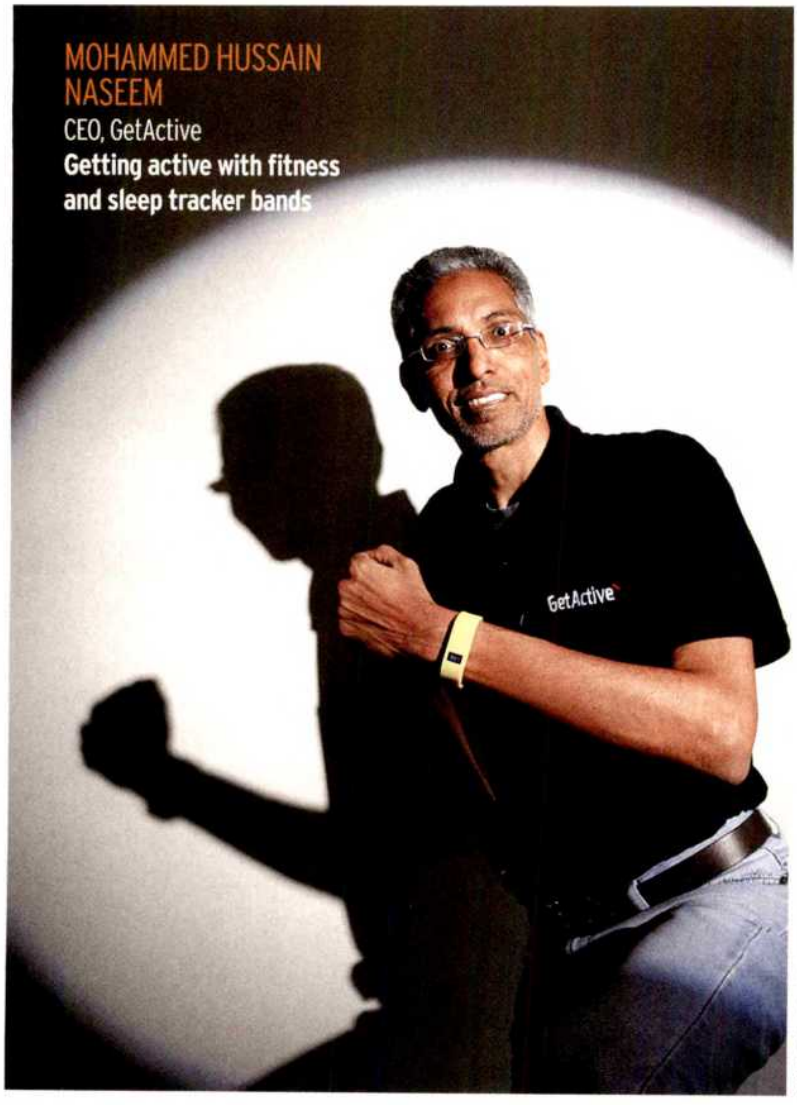
The story of the founders of Grey Orange Robotics is about following one's passion. It was not planned. But product development was the only thing the duo could think of even in

See interview with Gandharv Bakshi at businesstoday.in/lumos-bakshi



DEEPAK G. PAWAR

Though India's start-up ecosystem still favours the country's $146 billion software services sector, and product manufacturing is considered a foolhardy option, there is optimism among industry observers. Experts say the start-up ecosystem has been witnessing greenshoots in design-led innovation over the past two to three years and may see rapid growth by 2018.

The central government's Make in India initiative and a spurt in interest shown by angel investors and venture capitalists to fund tech hardware start-ups might just give the much-needed boost to the industry. Though venture funding into hardware tech start-ups is abysmally low, with a recent report pegging the figure at around $40 million in the past year, entrepreneur-turned-angel investors are keeping a close watch on the developing success stories in this space.

However, to compete with the best in the world, India has to emerge out of the prototype phase into mass manufacturing of technology-driven hardware. That said, as setting up of infrastructure to scale up manufacturing takes time, India must, meanwhile, establish itself as a product innovation hub, despite a few failed attempts. And, if Information Technology Minister Ravi Shankar Prasad is to be believed, the Centre is ready to travel the distance. "When it comes to technological innovations and manufacturing we will see a few failures along the way, but we have to be patient. Only then will we taste success," Prasad said at an *India Today* event recently.

So, as India take steps towards becoming a 'product nation', instead of remaining buried under a generic name – as the world's back office or an IT and ITeS services hub – the country will need to support individual efforts like that of Abhinav Verma of LiveBraille, as well as team players like Samay Kohli and Akash Gupta of Gurgaon-based Grey Orange Robotics, or Sagar Apte and Deepak Thomas of CarIQ, which operates out of Pune.

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THE EARLIER HARD NUTS

THE INITIAL RIGOUR

1. In 1950, Prasanta Chandra Mahalanobis and two of his students, Samarendra Kumar Mitra and Soumyendra Mohan Bose, started designing calculators. By 1955, the team had developed India's first analogue computer to solve linear equations at the Indian Statistical Institute (ISI) in Kolkata. The machine was built from material collected from war surplus depots and scrap markets, and certain parts of the machine were cast at the ordnance factory in Cossipore, Kolkata.

2. In 1958, the ISI and the Department of Electronics and Telecommunication Engineering at the Jadavpur University indigenously built a transistor-based second generation computer, the ISIJU-1.

3.In 1959, India's first full-scale electronic digital computer, TIFRAC, was built under the careful watch of Dr. Homi J. Bhaba by Rangaswamy Narasimha, who held an MS in electrical engineering from California Institute of Technology and a doctorate in mathematics from Indiana University, US, and his team of engineers, at the Tata Institute of Fundamental Research (TIFR) in Mumbai.

THE HARDCORE '80S

1. In 1976, HCL started manufacturing computers. It became a major player in microcomputer manufacturing as mainframes were gradually phased out after the exit of IBM in 1978. During the 1980 elections news agency UNI collaborated with HCL to instantly analyse the results - a first-of-its-kind computer application in India.

2. In 1980, Wipro, a consumer goods major since 1945, diversified into IT, and established itself as a tech hardware major by the end of the decade, manufacturing CT scan, ultrasound and x-ray systems, PCs and laptops, among others. In 2013, it sold its hardware business.

3. In 1985, Infosys created two separate hardware units. Infosys Digital Systems rolled out the Electronic Telex Machine and Electronic Keyboard Concentrator for Indian Post and Telegraph Network. Infosys Manufacturing Systems produced numerical control machines and systems.

Source: *The Outsourcer - The Story of India's IT Revolution* by Dinesh C. Sharma

sheer variety of innovations is encouraging," says an industry source.

Lost Opportunities

In the past there have been several attempts to make India a robust electronics hardware manufacturing hub, but without much success. However, the pioneering work at the country's premier space research organisations, the indigenously-built rockets and satellites, its space programme or its nuclear capabilities, are a case in point to India's talent pool and what it could have achieved at a fraction of the cost of what developed nations spend on research and development.

In 1955, India's first analog computer was built at the Indian Statistical Institute in Kolkata, and six years later the first digital machine was developed at the Tata Institute of Fundamental Research in Mumbai.

Between 1961 and 1978, however, IBM went on to capture over 80 per cent of India's market share by catering to the country's burgeoning hardware needs, as it tried to catch up with technological advancements in the West, neglecting its own research initiatives. The much-touted IBM 1620 and IBM 7044 found place in the Indian Institutes of Technology. Refurbished models were assembled and part manufactured in Indian units and then phenomenally high annual rentals were charged. For example, the IBM 1401, which was sold at $1,200 in the US, was rented out to Indian institutions at $20,000 a year.

As the IT giant shut shop in 1978, emerging Indian companies started dabbling in the hardware manufacturing space setting up R&D units. The 1980s saw the emergence of Infosys, Hindustan Computers (now, HCL Technologies) and Wipro, with notable contributions to hardware manufacturing, only to move away to the more lucrative software services sector by 1988. What remained of the product business was negligible.

Interview with Abhijit Bose & Bhaktha Keshavachar at businesstoday.in/ezetap-founders

See interview with Samay Kohli & Akash Gupta at businesstoday.in/greyorange-founders

The IT Services Lure

The $146-billion Indian IT industry has grown at a quick pace. From $5.7 billion in 2000, the IT services sector is estimated to earn $110 billion-112 billion in 2015/16 from exports alone, according to industry group Nasscom. Today, the IT industry contributes about 9.5 per cent to the country's gross domestic product (GDP) and has provided over three million people with high-paying jobs. And, over time, Indian companies emerged as global giants.

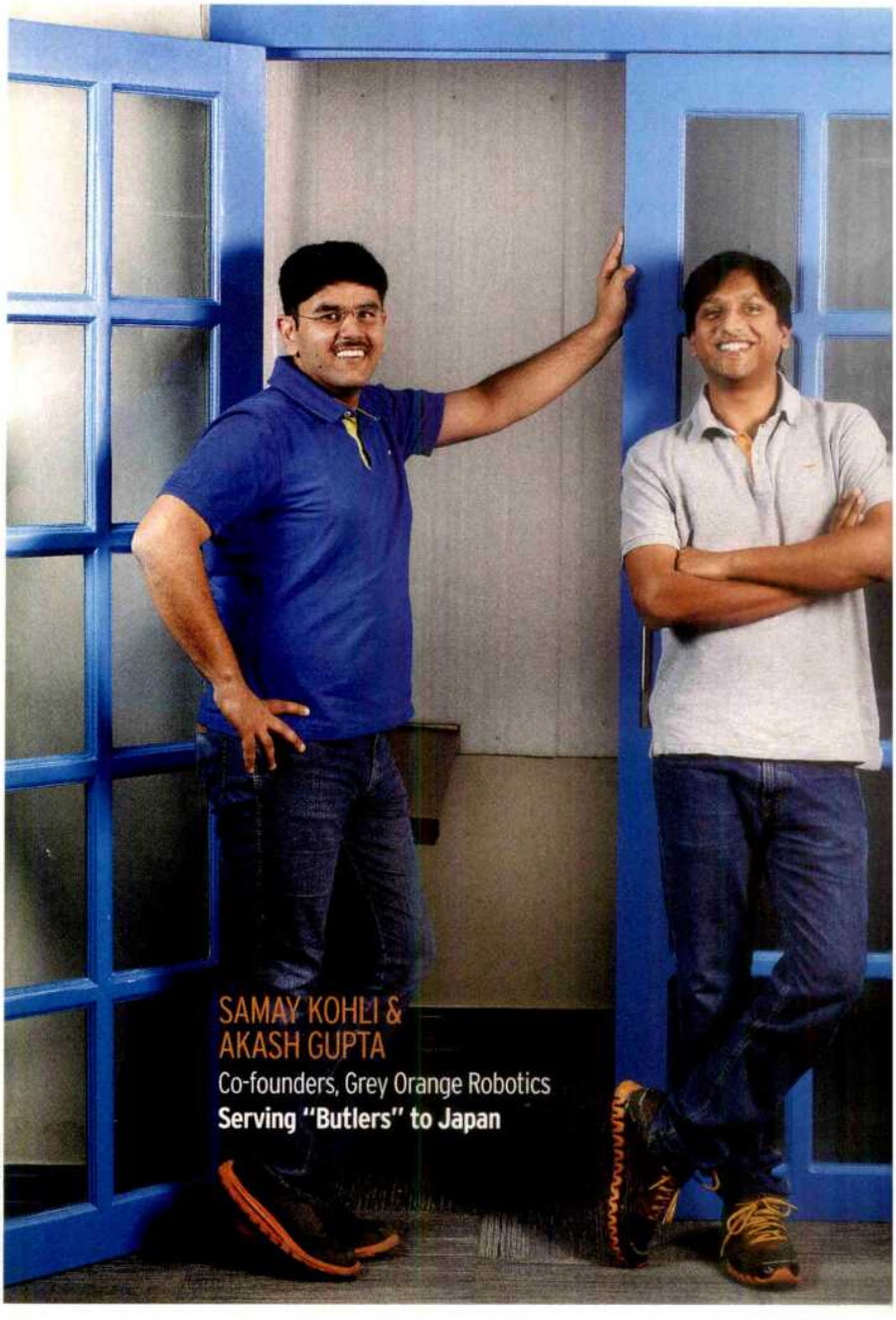
In the first 10-12 years of the dotcom boom of 1997/2000, most Indian companies worked in areas of embedded software, integrated circuit (IC) design and firmware to help international players build products, but kept away from the products segment. And, with good reason. IT services was a lucrative business. Capital required was minimal and the segment did not carry undue risks. Executing orders was more stable than trying to innovate, and process innovation was easier than product innovation.

However, now that the IT services sector has become mature, a number of experienced veterans as well as hungry start-ups led by young minds have started experimenting in the hardware space. The initiatives may still be wrapped around software and, in some cases, services, but what is interesting is that product innovations in hardware is becoming a norm rather than an exception.

According to Nasscom, India has the third-largest and fastest-growing start-up ecosystem in the world with over 800 technology companies cropping up every year. A number of hardware start-ups are among them.

Mohammed Hussain Naseem, co-founder and CEO of 2mpower Health Management Services, attributes it to "a huge mind shift".

"Appetite for risk taking has gone up considerably," he adds. Naseem, a GE and IBM veteran, sells GetActive wearables designed and developed by an Indian company, which helps people track their fitness. He says a



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number of factors have come together to make it propitious for product innovation in the country. But hardware design and development is still a tough challenge to crack.

The Soft Underbelly Of Hardware Manufacturing

To understand why product hardware is hard, meet Rohan Shravan, the CEO of Notion Ink. In December 2010, Shravan launched Adam, one of the first tablets on the Android platform, which was well received by the global media for its polished looks, unlike the crude Chinese tablets. There were even comparisons with Apple's iPad and Notion Ink was poised to take off.

However, when the units were shipped, it came as a disappointment on multiple fronts, including build quality, absence of the latest Android OS iteration and controversies related to shipping. Shravan, who has built the company with his own funds, says: "It is easy to criticise something. Remember, in India, there was no proper computer numerical control tooling, plastic injection moulding and there was nobody to handhold a hardware start-up. Unlike a software or a services startup, it is capital-intensive. You have to build and sell a product before you make your first rupee. There was no mentorship. The challenges were enormous."

Apte of CarIQ agrees: "There are no prototyping labs, no testing facilities and the mistakes you make can be very expensive. If an iteration of a product doesn't work, it has to be just thrown away. It is not a piece of code which can be rewritten."

Skanray Managing Director, Vishwaprasad Alva, too, believes hardware development in India is not for the faint hearted. Skanray manufactures X-ray machines that cost a third of what is charged by its multinational competitors. Says Alva, a veteran of GE and Kirloskar Healthcare: "I used to have close to a 100-member product development team at Kirloskar Healthcare and we did some good work in developing indigenous technologies. However, the success of the services industries meant that it took away my best talent. Today, of my original team, more than 90 per cent are in services sector. India's success in services has been a curse and a double-edged sword."

Sudheer Reddy, the CEO of Jay Robotix, believes lack of access to capital has also hindered growth of product hardware companies in India. Blaming venture capitalists, Reddy says: "They are ready to fund the 100th iteration of an e-commerce idea, but will not back a 'risky' hardware start-up. Where are the product hardware funds and accelerators for this segment of companies?"

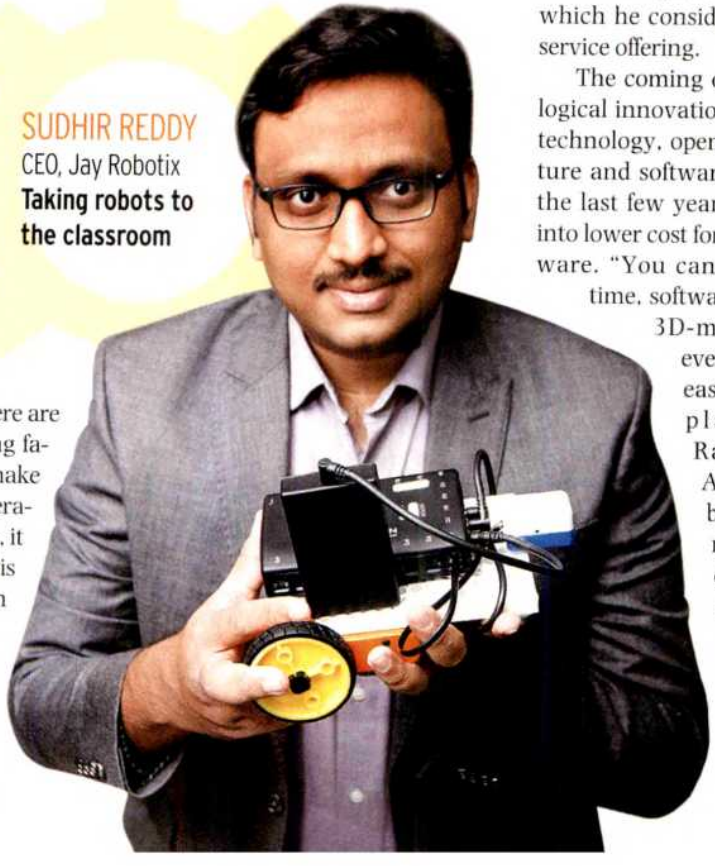
Also, when product hardware companies are discussed, most people think of them as hardware manufacturing, which is a different story altogether, points out Pinkesh Shah, Director of Product Leadership Institute. Shah says China is way ahead in electronic manufacturing services. "Apple does not manufacture its phones in America. The iPhone is, however, designed, developed, marketed and branded in the US. So, India can have successful product hardware companies without necessarily always having to manufacture them here, though it would be good if we did."

He, however, says: "Unlike earlier, what has changed now is that we are ready to offer an integrated bundle which includes hardware, software and services."

The Changing Terrain

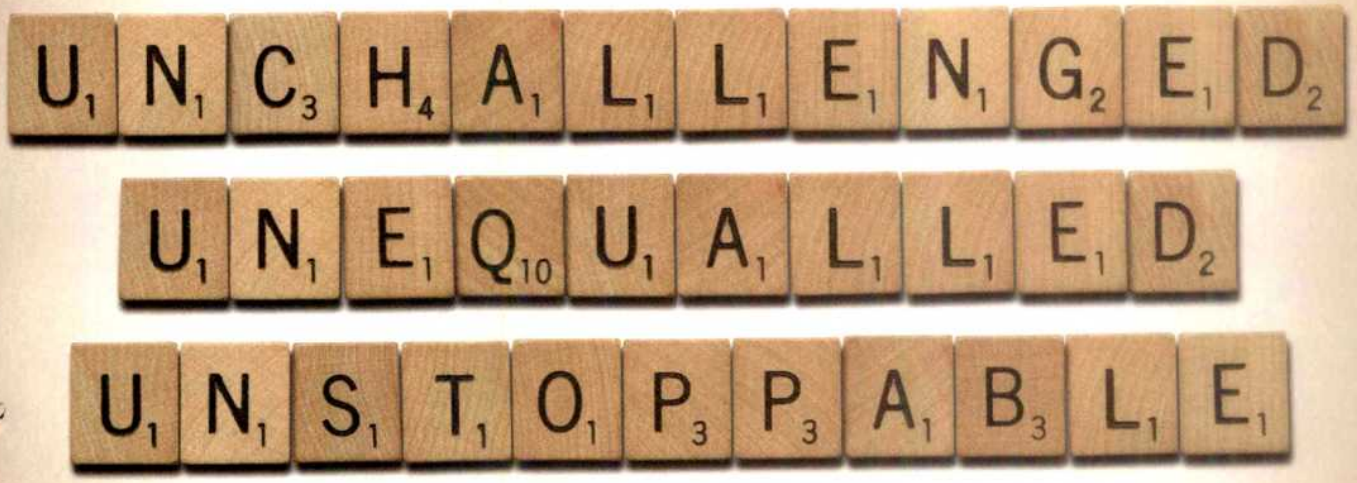
Vishal Gondal, 38, is the right person to turn to when it comes to the changed scenario that has made Indian start-ups tackle product hardware successfully. Gondal started Indiagames before cashing out and selling it to Disney, and now makes GoQii, a wearable device which he considers a fitness-as-a-service offering.

The coming of several technological innovations, such as cloud technology, open-source architecture and software as a service, in the last few years, has translated into lower cost for developing hardware. "You can just rent server time, software and you could 3D-model things, or even 3D-print things, easily. Experimental platforms like Raspberry Pi and Arduino have boosted opportunities and confidence. The playing field is a bit more level today for Indian companies," says Vishal.



SUDHIR REDDY
CEO, Jay Robotix
Taking robots to the classroom

A. PRABHAKAR RAO



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DEEPAK G. PAWAR

Investments by well-heeled angels and select venture capitalists have eased the capital access issue as well, but not fully, says Apte. Mentorship of organisations, such as iSpirit and TiE, which have championed their cause, seems to have also boosted the confidence of product companies.

While India does not have a robust EMS (electronics manufacturing services) base, which can support mass manufacturing, a number of maker labs have emerged. These help in rapid prototyping, fast experimentation, tooling, laser cutting, mould making and product validation. 3D printing has further boosted the whole process.

A growing domestic market, the capability to take higher risks, rise of Internet of Things, software as a service, cloud technologies, open source architecture, 3D printing, improved access to capital, mentorship and industry bodies advocating their cause, have played an important role to boost product hardware companies in India. Says Lathhe of Sensegiz: "India has always done well in applied innovation. Now Indian companies are building IP, too, and 90 per cent of our sales come from international markets."

Future Unicorns

Verma of Livebraille says it is only a matter of time before Unicorns emerge from the product hardware ecosystem in India. "We will have our own Flipkarts and Olas in the next few years." The CTO of Diabeto, a medical device to track health parameters, Shreekant Pawar, says that hardware which had been ignored for long in India is getting its mojo. "Doing hardware is seen as sexy."

Naseem of 2mpower says government should play a role in enabling the success of product hardware companies as this could lead to manufacturing. "Whether it is South Korea, Taiwan, China, Singapore or Malaysia, governments have played a proactive and positive role. If the new government with its Make in India initiative gives a push, there is no reason why we cannot build brands out of India in this space."

Sanjay Swamy, Managing Partner of Prime Venture Partners, who has led and now invests in start-ups, says: "Venture capitalists from around the world now realise that hardware, as part of an overall solution, is no longer a liability. Instead, it could well become a competitive differentiator for a company. While this is still nascent in India, I expect to see more action on the hardware front. I wouldn't be surprised if dedicated funds to invest in hardware-centric start-ups crop up in India in the near future, even as existing VCs take measured bets in the space."

For a country accustomed to success only in services, the next few years are poised for a boom in hardware innovation with the new breed of Indian start-ups conquering not only the domestic market but also taking the fight to foreign shores. ◆

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Dr. B.K. Tripathi
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Path-breaking research: Bugworks CEO Anand Anandkumar with his team

NILOTPAL BARUAH

See interview with Anand Anandkumar at
businesstoday.in/bugworks-anandkumar

India's Drug Warriors

Indian companies have joined the global hunt to discover new antibiotics. The good news is that they are steadily moving ahead. By E. KUMAR SHARMA

It is turning out to be a serious health scare. With bacteria fast developing resistance to existing antibiotics, we may soon reach a stage where a simple bruise may prove fatal. What is making things worse is that no new antibiotic has been discovered for bacteria that have developed resistance to some currently available antibiotics. This seems set to change.

In India, a bunch of bravehearts, knowing well that drug discovery is 'high risk, high reward' game, is doing extensive research to discover the next big antibiotic. They know that there are no clear timelines for drug discoveries. They know that the failure rate is high. But they are passionate about their work. If things go as planned, a new antibiotic for multidrug-resistant infections based on a made-in-India compound will hit the market by 2023.

"We have four programmes and hope to reach proof-of-concept in the target population by 2018. We could then, it not earlier, out-license the molecule to a global company for

$500 MILLION
Amount a company has to spend to develop a new drug and launch it in the market

"WE HAVE FOUR PROGRAMMES AND HOPE TO REACH THE PROOF-OF-CONCEPT IN HUMANS IN THREE YEARS"

RADHA RANGARAJAN, CEO, Vitas Pharma

milestone payments and royalties as it takes it up for further development," says Radha Rangarajan, the CEO and co-founder of the Hyderabad-based Vitas Pharma. Such out-licensing is a common practice in the pharmaceutical industry, as further development of a molecule, till the time it hits the market, is a very costly affair. The risk of failure, too, is high.

The nine-member Vitas is working on developing the next-generation antibiotic for multidrug-resistant infections. These infections kill lakhs of people globally. The problem — a result of misuse of antibiotics — is so acute that even simple infections that were easily treatable in the past are becoming life-threatening (See *Antibiotics: A Short History*).

Vitas has got seed funding from the Indian Angel Network and two grants from the Biotechnology Industrial Research Assistance Council. It also has a research collaboration with Biocon. The drug is at the toxicology study stage (in which scientists look at the adverse effects in living organisms), though Rangarajan is hopeful that next year the company will be able to file for an IND (investigational new drug) application with the US Food and Drug Administration (USFDA), which could give the product QIDP status. QIDP, or Qualified Infectious Disease Product, is a fast-track approval programme of the USFDA for new antibiotics. "Radha and her team have been working a lot in this space. I extended my support as it is important for India to do something in this area," says Biocon Chairperson and Managing Director Kiran Mazumdar-Shaw.

In Bangalore, Shaw's home town, a 15-people team of Bugworks has been working on drug-resistant and hospital-acquired infections since January 2014. "Our product is at an early stage but the results look exciting, though we are still some time away before we can say that we have a strong chemical compound," says CEO Anand Anandkumar. "By 2019, we hope to reach the stage of early proof-of-concept in humans," he says. He says they are also working on bio films, a chemical for coating biomedical devices so that these do not catch infections and spread them on to patients.

There is no fixed timeline for approval as it depends upon the product and the USFDA policy for the therapy segment it belongs to. Though the average time taken for drug discovery is 10 years (See *It's a Long Road*), in case of new antibiotics, after Phase II, it could take three to five years (three for clinical development and two for approvals), as are under the QIDP programme.

What makes these developments important is that almost no big cash-

IT'S A LONG ROAD

The various stages of drug discovery take more than a decade

PRE-DISCOVERY: 5,000-10,000 compounds are tested

PRE-CLINICAL TESTING: Involves shortlisting of about 250 compounds; lab and animal testing. The first two stages take three to six years.

CLINICAL TRIALS PHASE 1: Initial testing in a group of 20-100 healthy volunteers

CLINICAL TRIALS PHASE 2: Testing in a group of 100 to 500 patients

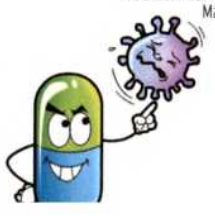
CLINICAL TRIALS PHASE 3: Testing in a group of 1,000-5,000 patients to show safety and efficacy. Clinical trials take six to seven years.

FDA REVIEW: Filing of new drug application with the USFDA, which takes up to two years to approve a drug

MANUFACTURING: Production of the new medicine

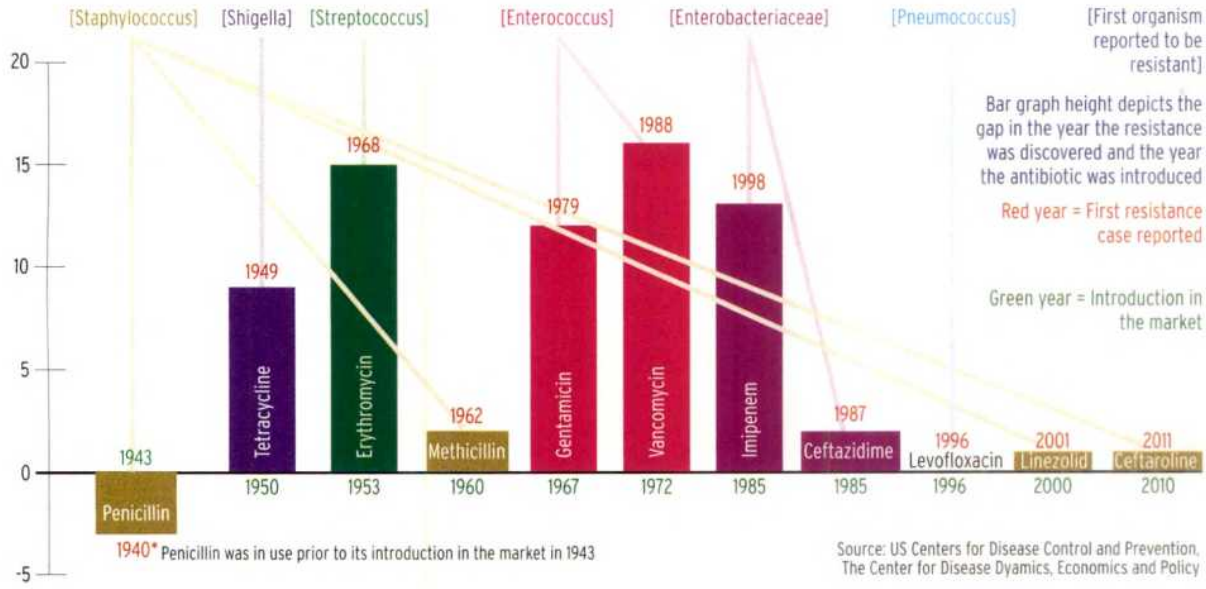
POST-MARKETING SURVEILLANCE: Monitoring the drug in the larger population to detect side effects

Source: Pharmaceutical Research and Manufacturers of America



See interview with Radha Rangarajan at businesstoday.in/vitas-rangarajan

ANTIBIOTICS: A SHORT HISTORY



rich Indian pharmaceutical company is investing in basic research in this field. "It is difficult for generic companies, with 24 per cent EBITDA margins, unlike the 40-50 per cent margins that innovator companies earn. On top of that, the government wants to impose price control," says a senior executive at a leading pharmaceutical company. Even worldwide, few companies are working on antibiotics, as they are not as profitable as, say, drugs for cancer and diabetes. This is because a course of antibiotics lasts just five days while medicines for diabetes and hypertension have to be usually consumed for life and, therefore, turn in more profits. The total global market for antibiotics is estimated to be worth $40 billion.

This is not to say that Indian pharmaceutical companies are not doing basic research or have given up on new drug discovery. For instance, Sun Pharma Advanced Research Company is working in oncology, ophthalmology, dermatology and respiratory segments. It is working on new drug delivery systems and two new chemical entities (molecules), Sun k706 (for leukaemia) and Sun 597 (for dermatology). Both are at the pre-clinical stage. Glenmark, which has always seen itself as a drug discoverer, is doing research in pain, inflammation and oncology segments. Among the leading Indian companies, Wockhardt is arguably the only one focusing on the antibiotic space, where it has three compounds. In May this year, it said the USFDA had granted WCK 4873, from its new drug discovery programme, QIDP status. This is the third product from Wockhardt to get this status.

"There is a need for mission-oriented research in antibiotics with stronger commitment from the phar-

RACHIT GOSWAMI

"THERE IS A NEED FOR MISSION-ORIENTED RESEARCH WITH STRONGER COMMITMENT FROM THE PHARMA SECTOR"

K.V. SUBRAMANIAM, President, Reliance Life Sciences

maceutical sector. A starting point could be making this a national priority, with the government partnering with some cash-rich pharmaceutical companies," says K.V. Subramaniam, President, Reliance Life Sciences. On why Reliance Life is not working in this field, he says, "We are focused on biological research. If there are opportunities from a biological standpoint, we will certainly look at them." Reliance Life Sciences is developing novel therapeutics for treatment of cancer, inflammation, and cardiac and neurology disorders.

Globally, though, there are signs of renewal of interest in antibiotics, with drug majors such as Merck and Roche re-entering the space. For instance, last September, the USFDA granted QIDP status to Merck's Relebactam, which is for treating complicated urinary tract infections.

Among the bigger Indian players, Dr. Reddy's, where Vitas' Rangarajan used to work earlier, is also looking at the field through Aurigene, an independent subsidiary based in Bangalore. Aurigene, which offers drug discovery services to global companies, has in its pipeline products that boost the immune system, which is one of the ways of fighting drug resistance. These are at the pre-clinical stage. The company is working on two anti-infective assets. Aurigene CEO C.S.N. Murthy says the company is doing this work on its own and hopes to get to the stage of early proof-of-concept in human in two years. It will then take a call whether to out-license it or develop it further on its own.

Then there is Cadila Pharmaceuticals, which has tied up with the UK-based Helperby Therapeutics. "Big Pharma has all but left the playing field in favour of more lucrative treatments for long-term conditions and it has been left to fledgling drug discovery companies such as Helperby to try to fill the void," Professor Sir Anthony Coates, Chief Scientific Officer, Helperby, had said in July 2014. Helperby "has discovered the world's first antibiotic resistance breaker, which is currently in development under license by Cadila Pharmaceuticals," he said. An antibiotic resistance breaker is combined with an obsolete antibiotic to rejuvenate it and make it active against highly-resistant bacteria. Cadila is taking the compound through further clinical trials.

The money, too, is flowing in, though it may not be enough. "We have raised $750,000 through angel funding and are in talks with venture capital firms and a large pharmaceutical company to raise a million dollars. The $1 million should get us to the animal proof-of-concept stage. After that, we will need another $5 million to take our assets to the human proof-of-concept stage," says Anandkumar of Bugworks. "We have three assets that look interesting, though we can put money in any one at a given point in time," he says. He adds that a lot of companies are also looking even at a pre-clinical licensing deal due to the growing threat of superbugs, strains of bacteria that have become resistant to antibiotic drugs.

Even the government is pitching in. Anandkumar says they have received two grants from the Department of Biotechnology with a total ticket size of ₹90 lakh, or $150,000, over a two-year period. However, this is much less than what is needed. According to a study by the Tufts Center for the Study of Drug Development, the discovery of a new drug is estimated to cost $2.6 billion. But those working in this field say it is not that high. "Since the failure rate is more than 93 per cent, companies load costs of all failures against one success. But I still think you need $500 million from inception to the time the drug is fully out in society," says Anandkumar. Rangarajan of Vitas Pharma says "the cost of early clinical development varies depending on whether it is a big pharmaceutical company or a small biotech player. For antibacterials, this work can be done for less than $10 million depending on where the trials are conducted, the infections chosen and the time taken for regulatory approvals."

No matter what the costs are, it is important for humanity's survival that these companies succeed. ◆

@ekumarsharma

GLOBAL VIEW

Some MNCs have also got into the act

Some global drug makers are also working on new molecules for antibiotics. For instance, GlaxoSmithKline has discovered a compound for dealing with respiratory tract and skin & soft tissue infections. It is in Phase II of clinical trials.

Merck, known as MSD outside the United States and Canada, has found a compound, relebactam (previously called MK-7655), for treatment of complicated urinary tract infections, abdominal infections and hospital- and ventilator-acquired bacterial pneumonia. It is in Phase II clinical trials.

In January this year, Swiss drug maker Roche said it had entered into a licence agreement with Meiji Seika Pharma and Fedora Pharmaceutical to develop a compound for increasing the ability of some antibiotics to fight bacteria.

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THE FUTURE OF FARMING

Information and communication technologies may just usher in the second green revolution in India.

By SARIKA MALHOTRA

Kishor Jagtap, Project Manager at the M.S. Swaminathan Research Foundation (MSSRF), is working on a novel initiative in rural Maharashtra. His team is working with Digital Green, an international non-profit development organisation, to spread the use of clean technologies among women farmers in the Wardha and Yavatmal districts of the state.

MSSRF rolled out the Digital Green model – video-based demonstration of the best farm practices – in 2013 across 30 villages in these two districts. Buoyed by the initial response, the outfit has scaled up the programme, reaching out to almost 3,300 women farmers in some 60 villages in the region. "There is a sense of identification. The fact that they can see women farmers like themselves being featured in these videos makes them believe that they too can adopt best practices and benefit from them," says Jagtap. "Also, these model farming techniques are shared very clearly, narrated through a story in a step-by-step manner in Marathi, which makes it easier for them to replicate on their farm."

Today, Digital Green reaches 7,645 villages across Rajasthan, Karnataka, Madhya Pradesh, Andhra Pradesh, Telangana, Maharashtra, Odisha and Bihar. It has already made and disseminated 3,782 videos. Rikin Gandhi, CEO, Digital Green, says that they essentially work with agencies already training farmers. "We then serve as a trainer of trainers to build the capacity of their field professionals and community-level intermediaries to produce and share locally produced videos. The communities are both creators and consumers of knowledge products such as digital videos."

Indeed, Digital Green's initiative is one among the several underway in India to promote low cost, sustainable and organic agricultural practices among farmers. All this is planned with the extensive use of information and communications technologies (ICTs). The efforts are geared towards

Harnessing technology: Video production of women farmers sowing paddy seedlings at Thane district in Maharashtra. The MSSRF and Digital Green initiative records best farm practices to spread the use of clean technologies

RACHIT GOSWAMI

decreasing the dependence on chemical fertilisers and pesticides, while also reducing input cost and ensuring the farmers get more yield per acre of cultivation. "This also helps improve the quality of soil and dependence on water intensive chemical-based farming," says Gandhi.

Wardha and Yavatmal, for instance, are rainfed areas and the farmers grow cotton, soyabean, *toor dal* and *chana*. Farmers in the region are heavily dependent on rain and chemical fertilisers and pesticides. Here, one of MSSRF's key focus has been on promoting sustainable agricultural practices, seed management, pest and nutrient management and other post harvest best practices. "Over time, farmers have started to understand the adverse impact of using excessive chemical fertilisers and pesticides on soil fertility and crop's harvest and nutrition, and have now started using alternatives such as organic compost etc.," says Jagtap. And the impact is visible. The cost of cultivation has gone down in the project area by 20 per cent. The input cost of soybean, traditionally around ₹10,000 per acre, has now plunged to ₹7,000 to ₹8,000 per acre while for cotton it has gone down from ₹12,000 to ₹8,000-₹9,000 per acre. In addition, judicious use of chemical fertilisers and pes-

ticides has improved the water retention capacity of the soil. "This year, despite a long dry spell in the monsoon period, the crops have survived and are still standing," says Jagtap.

Multiple Challenges

Rajat Wahi, Partner, Management Consulting, KPMG, says that Indian agriculture is facing multiple challenges. "On one hand there is stagnant acreage and yields. In addition, water stress is taking a toll with per capita water availability likely to fall year on year," he says. "Also, unsustainable usage of inputs, especially inputs application skewed towards urea is leading to soil fatigue and lower yields". Soil nutrition depletion is becoming a cause of concern and "so the use of clean technology in the context of India's agriculture is becoming even more relevant," adds Wahi.

Clearly, experts believe the time has come for large-scale adoption of clean technologies. Such technologies can be both basic – such as drip irrigation, rainwater harvesting and natural pesticide use – to more sophisticated – such as precision agriculture and reprocessing technologies. Experts believe that no matter what the clean technology is, ICTs would play a pivotal role in disseminating them to more than 55 per cent of India's population which is dependent on agriculture.

"As ICT becomes more accessible to the farmer, with the penetration of mobile networks and through the Digital India initiative, the potential coverage and benefits are expected to become more significant for the agriculture sector," says Wahi. It is estimated that mobile and smartphone-enabled information services alone can reach up to 67 million farmers by 2020. It would result in an additional $8 billion revenue for these farmers and a reduction of water and fertiliser usage by up to 40 billion cubic metre and 1.5 million tonnes, respectively, according to industry estimates.

Already, innovative companies are building solutions to improve small and marginal farmers' access to timely and relevant information. Mobile phones, with their growing penetration of rural India, are becoming the fastest and most cost effective way to disseminate clean technology. Leveraging the mobile platform is Ekgaon, a Delhi-based technology and management services company. The company, through its OneFarm advisory services, is reaching out to farmers in Madhya Pradesh, Chhattisgarh and Tamil Nadu. Vijay Pratap Singh Aditya, CEO of Ekgaon, explains that farmers have customised need for information based on the soil type, local ecosystem and crop. Small farmers do not have access to latest agro-technology and hence adopt farm practices which are usually not optimal, leading to soil depletion, excess use of fertilisers and water. "Agricultural inputs such as pesticides and fertilisers impact the soil health and affect ground water or water bodies. However, the risk of that can be reduced through timely farm advisory services which can reduce the use of fertilisers, pesticides while promoting a very rationalised and appropriate use of the same," says Aditya.

Farmers checking weather advisory on their phones at Rajawas village, Jaipur

OneFarm advisory service is based on facilitating information on 'when I need' delivery model, thus handholding the farmers during the cropping season. A farmer is charged ₹150 for a crop in a season and is provided services such as weather forecast, crop management, soil nutrient management, disease alert, and market prices in local languages on their mobile phones. The advisory is customised for every farmer. Interactivity is enabled in the

system to monitor usage of advisory by the farmers – a farmer confirms using advice provided by sending an SMS. "Our impact studies show that the services have improved livelihoods of farmers by helping them reduce agri-input costs by up to 30 per cent and increase productivity by 15 per cent, thus cutting down on wastage at every step," says Aditya.

Betting on Mobile Apps

With smartphone sales surging, mobile apps too are expected to playing a vital role in spreading awareness about clean technologies in agriculture. Karnataka-based Jayalaxmi Agrotech Pvt Ltd is developing apps to bridge the information gap among farmers. "Due to the information gap, farming has become 'input intensive' and 'less knowledge intensive'. Illiteracy and language diversity are major bottlenecks in information dissemination," says Anand Babu, co-founder of Jayalaxmi Agrotech.

The company has developed 30 mobile apps for agricultural crops (such as pomegranate, banana, potato, onion, etc.) and even for animal husbandry, and these apps are being used by 20,000 farmers since their launch last year. "Our applications are crops specific. Farmer can choose a crop of interest and download on the android phone either from Internet or from peer to peer transfers. This makes the app very light weight and hence can work on any basic android phone, says Babu. "These apps have audio visuals and are designed to break the literacy barrier. Once downloaded, they can work offline and hence there is no recurring data or Internet cost." While smartphone penetration is good in rural areas, Internet penetration is still quite low. Hence, they get very few downloads from Internet. Maximum downloads come from farmer to farmer transfers.

Once downloaded, the farmer gets information about the varieties of a crop, seasons to grow them in and the optimum quantities of fertiliser, water and pesticides to be used. Babu says that 90 per cent of farmers are not aware of fertiliser dose calculation procedure – it leads to erratic use of chemical fertilisers spoiling the soil fertility. "The app has inbuilt intuitive fertiliser dose calculator. It recommends the optimum use of fertilisers. It also helps farmers in measuring important elements such as sunlight, altitude, etc using their mobile." The apps also educate farmers on symptomatic diagnosis of crop diseases and managing pest emergence along with early precautions. As a result, overall usage of pesticides has come down.

According to a preliminary survey conducted by the company on app users, overall agri-input cost was pared by 14 per cent and productivity increased by 17 per cent. Indeed, superior quality of sugarcane has been reported by some of the sugar factories in North Karnataka region (where they have highest number of app users). "Our analytics platform tracks the farmer app usage patterns," says Babu.

Interestingly, these ICTs are also introducing farmers to new crops. They were not being grown earlier due to lack of information. For example, in Belgaum and Bagalkot districts of Karnataka farmers predominantly grew sugarcane but things are gradually changing with the growing popularity of the apps developed by Jayalaxmi Agrotech. "Despite friction between farmers and sugar factories, farmers were not able to switch to other crops due to lack of knowledge," says Babu. "Since we launched our agriculture apps, we have been noticing a gradual shift. Several farmers in two districts are not just downloading other crop apps but have also started growing them."

Jayalaxmi Agrotech's apps are reaching one new farmer every eight minute, according to Babu. Clearly no agri-extension programme can ever spread at this rate. No wonder then, experts believe that a second green revolution in India will be facilitated by ICTs and revolutionise Indian agriculture. Even in the case of precision agriculture, which uses modern technologies such as geolocation and remote sensing, ICTs will play a key role in disseminating best practices. "Karnataka State Agriculture and Horticulture Department has 10,000 plus field staff who are equipped with smart phones. If they include our agriculture mobile app dissemination as a part of their agri-extension programme, and even if each staff transfers the app to three farmers a day (through Bluetooth), 30,000 farmers across the state will become digitally literate every day. This will lead to the next green revolution," sums up Babu. ◆

@sarikamalhotra2

THE GOVT STEPS IN

The Indian government too is waking up to the potential of information and communication technologies (ICTs). It is keen to use them extensively to reach out to the nine crore farm families. It has, in partnership with the states, zeroed in on a host of ICTs to introduce clean technologies in rural India. These include Internet, touch screen kiosks, agri-clinics, private kiosks, mass media, Kisan Call Centres, and integrated platforms in the departmental offices.

However, the government is most enthused by mobile telephony. With over 38 crore mobile telephone connections in rural India, officials believe it is the most effective medium to ensure the spread of clean technologies. It is trying to leverage mobile messaging in a big way. An SMS portal was launched in July 2013 and since its inception nearly 210 crore messages have been sent to farmers across the country.

Sanjay Mehta, MD of Teleperformance India, with employees in Gurgaon. He believes the fabric of HR needs to change

PHOTOGRAPHS BY VIVAN MEHRA

THE COMPANY THAT KILLED HR

Why Teleperformance, a global outsourcing firm, decided to drastically remodel its people function.

By CHITRA NARAYANAN

Three years ago, Sanjay Mehta, the suave Managing Director of Teleperformance India, decided to do something fairly radical for the company of over 5,000 employees. He closed down the Human Resource (HR) department.

HR practices have always come in for a fair bit of scrutiny. Take the way Accenture recently belled the assessment cat. It dumped the statistics-driven bell curve performance appraisal system terming it unfair. But it's rare that a company actually bumps off the whole HR department itself. More so when it is a people-centric BPO business.

Well, to be fair, Teleperformance did not kill the important tasks that the HR function does – it just totally rewired the HR structure.

The fabric of HR needs to change, believes Mehta. When there is an overdrive of process, it kills experience, he says. This is why the Indian arm of the $3.7 billion global outsourcing firm decided to take a hard look at its people practices. Mehta describes how there was a yawning gap between the demands and expectations from the HR function. For instance, talent retention was a big challenge in an industry marked by high attrition levels, led primarily by a young team with average age of 18 to 25 years. "There was a gap between the expectations and delivery to nurture talent in the organisation. In our industry, retention of the talent is just as crucial as acquiring the right kind of talent from the available pool," he says.

The company began introspecting on how it could rewire its HR. "What does HR do? Manage talent and also take care of administrative processes like payroll and so on," says Mehta.

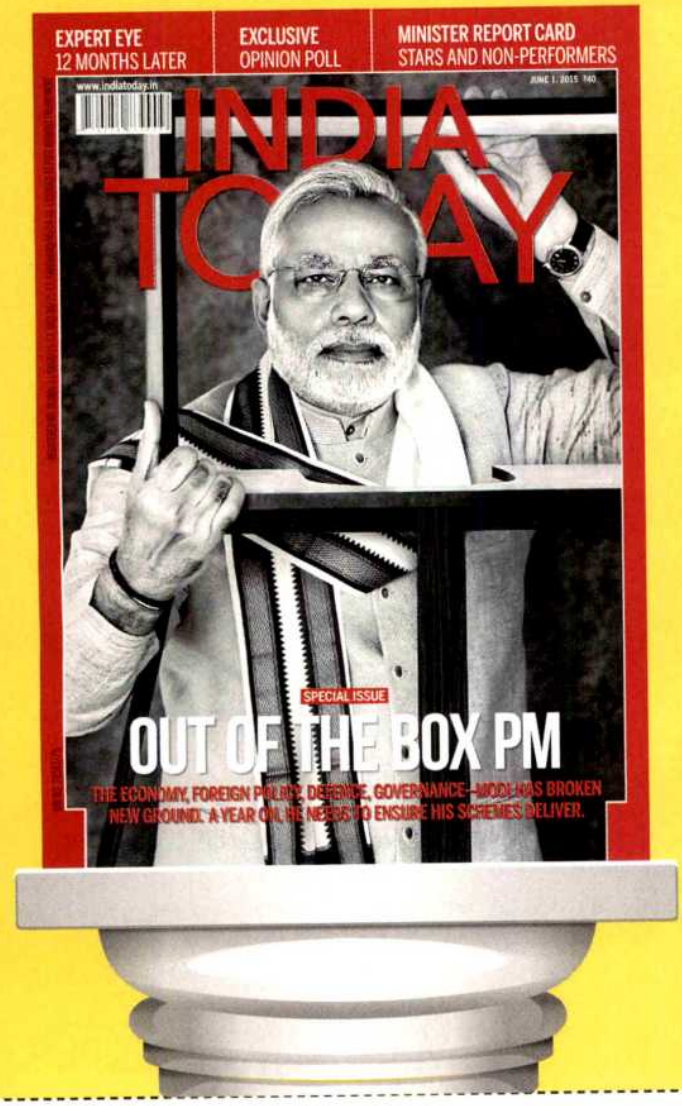
So much like the suggestion of management guru Ram Charan, who, in a compelling *Harvard Business Review (HBR)* article written in 2014, had advocated that the HR function should be split into two, Teleperformance ruthlessly engineered the divide.

It handed over the payroll function to finance. And the role of the HR function was redefined as talent excellence guardians. This included acquisition, engagement, care and retention of employees.

"We rewired HR to talent excellence in 2012 prior to this article. There was no personal advice or external advice. Just seemed the right thing to do basis employee centricity to advance employee experience," says Sanjay Mehta.

Now came the task of finding a team of people to handle the task of talent management. Only somebody who had been through the operations of Teleperformance, and had been an agent himself could understand the needs and issues of the employees, it was felt. So, a Teleperformer who was in the thick of operations – Amandeep Singh Arora – was handpicked and brought in as Vice President-Talent Excellence in 2012.

Arora describes how he had been with TP India



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Amandeep Singh Arora (standing) with employees. Arora was handpicked and brought in as Vice President-Talent Excellence in 2012

for almost 13 years, starting out as an agent, and then working across functions, including in the training department. He was senior manager for operations when he was chosen to front-end talent – both retention and acquisition. "I had experience of doing 90 per cent of the tasks that our organisation does," says Arora.

His brief was simple: as somebody who had lived, practised and felt what the agents did in the organisation, he had to map out their needs and aspirations. "Essentially, I was putting all the journey I had in the organisation on a new canvas," says Arora.

So how did he and his team of seven (five handpicked from operations) re-engineer it? "There was nothing special really that we did," says Arora. "What we did was proper listening to understand what our agents wanted, what are their concerns, what do they look forward to."

Listening Hard

Today, as all scores show that both employee engagement and productivity have risen multifold, Arora feels the biggest contributing factor was the way they set about providing avenues for people to listen to each other.

Town halls – that much feted and talked about engagement tool – were junked. As Mehta points out, like everybody else Teleperformance too had earlier held town halls but soon found out that nobody really shared serious grievances during such assemblies.

So in its place personalised CEO chat sessions were arranged. Mehta would meet employees in small batches of 15 to 20 people. Forty sessions were held last year (2014) and about 900 of the 5,000-odd employees got to chat and share their wants and aspirations.

But even this was not deemed enough. So in a clever twist, Teleperformance used its core strength – call centre operations – to create a standalone channel for its employees. You could call it a call centre for its own employees.

With the employee care (e-care) ticket channel, the lines were opened for all its 5,000 employees across three sites and four offices to log in and voice whatever they felt. "It was a real-time pulse check of what people wanted," says Arora.

Six thousand tickets came in last year and ranged from complaints, suggestions, fresh ideas on issues ranging from integrity, salary, food, travel, facilities and so on. "From ideas on training needs to basic hygiene issues, we started getting a lot of feedback," says Arora.

Managed like a mini call centre for employees, the e-care ticketing system was connected to the intranet of the organisation, where employees could log-in to 'My zone' and post an e-care request. A round-the-clock system, e-ticketing is managed by a team of eight whose responsibility was to provide first resolution within 24 hours of a ticket being raised, and case closure in 72 hours.

A daily report (Voice of Internal Customer Report) is prepared and shared with the MD (Mehta), CFO and heads of various departments, so everybody is in the loop and listening in directly to employees.

So what have been the learnings from rewiring the HR at Teleperformance? Arora says while listening was key, the other big learning was not to create unnecessary processes for the sake of processes. Instead, understand what the business is all about and work to optimise it.

As Mehta sums up, HR systems should be the icing on the cake, but if the cake is not there, then where is the fun. ◆

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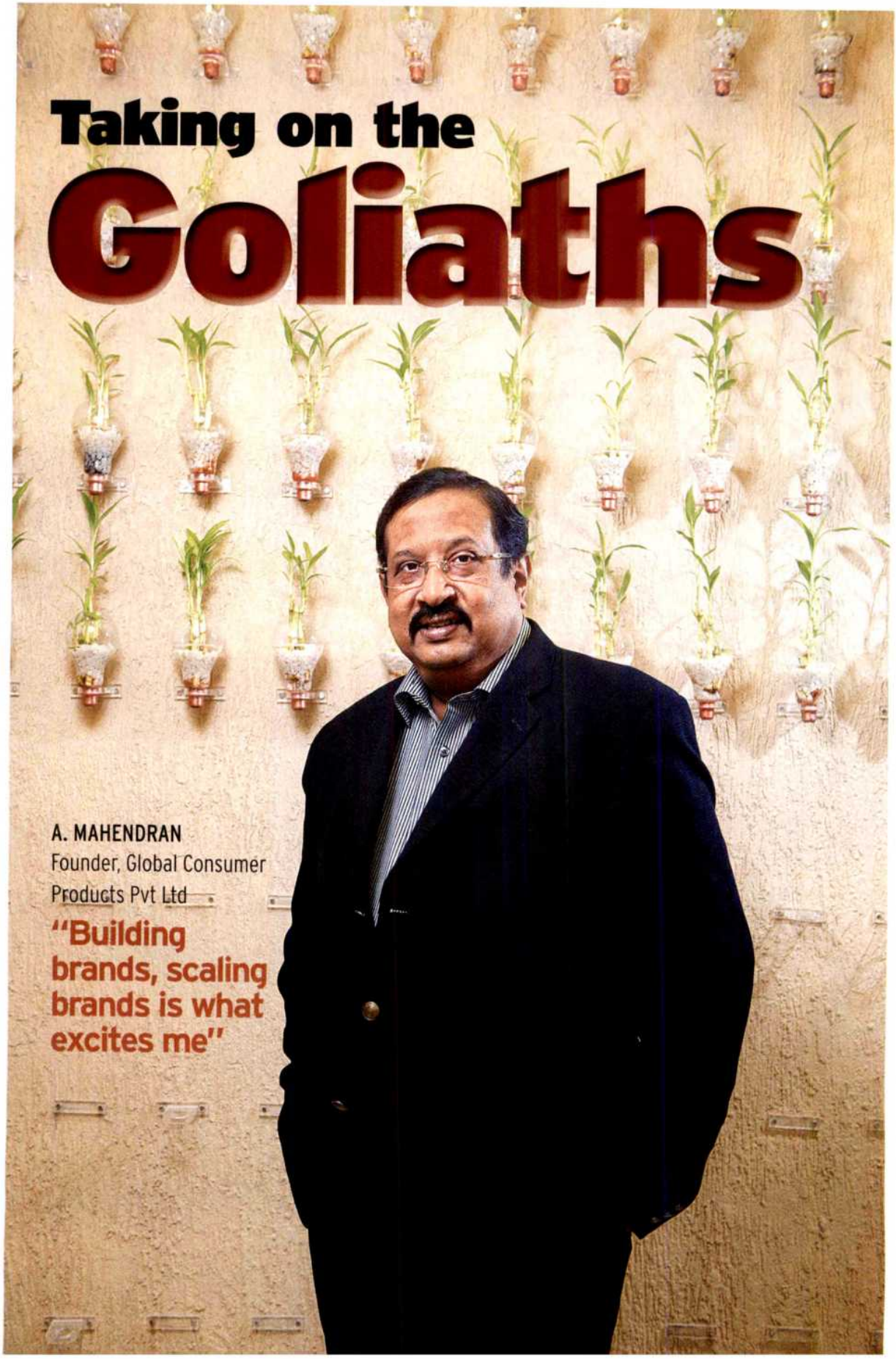
Taking on the Goliaths



A. MAHENDRAN
Founder, Global Consumer Products Pvt Ltd

"Building brands, scaling brands is what excites me"

RACHIT GOSWAMI

See interview with A. Mahendran at businesstoday.in/gcpl-mahendran

FMCG veteran Arumugham Mahendran has big ambitions for his start-up that will compete with the likes of Nestle and Cadbury. By VENKATESHA BABU

The headquarters of Global Consumer Products Pvt Ltd (GCPL) is located in a new, yet-to-be-finished multi-storied complex in an old, central part of Bangalore. The office location is an apt metaphor for the ambitions of the company's founder, Arumugham Mahendran, an old hand in the fast-moving consumer goods industry who is building a new FMCG company from scratch.

Mahendran has impressive credentials over a three-decade-long career in the FMCG sector. He started Transelektra Domestic Products Ltd, which popularised the Good Knight and Hit brand of pest-control products, before selling it to Godrej Group and running it for them. He led the Godrej Group's joint venture with the US consumer goods company Sara Lee, the maker of Bryl creams and Kiwi polishes. He helped set up Aadhaar Retailing, a JV between Future Ventures and Godrej Agrovet, and was also on its board. And he ran Godrej Consumer Products Ltd from July 2010 till June 2013, during which period its revenues tripled to ₹6,000 crore, mainly from integrating some other Godrej group companies but also from organic growth.

Clearly, Mahendran knows how to build and grow FMCG brands. And that's what he enjoys the most, especially when the brands are his own babies. "I have never believed in working for somebody," he says. "Even when I led several companies in the Godrej Group, it was always as a partner and never as an employee. So in that sense I have always been an entrepreneur, an 'intrapreneur' maybe, having stakes in all the companies I have helped build and run. Building brands, scaling brands is what excites me."

Mahendran, a qualified chartered accountant, set up GCPL six months after leaving Godrej Consumer. His great track record soon attracted global investors. Goldman Sachs and Mitsui Global Investment put in $50 million (₹315 crore) in GCPL in early 2014. While doing market research and planning the company's product portfolio over the next year, Mahendran built a team to lead the company. Anuradha Narasimhan, a Britannia veteran, was brought in as head of sales and marketing, Kamal Kumar Aggarwal was hired from Ferrero to head human resources and finance, while Ajay Kumar came from Cadbury to head R&D.

But why did Mahendran part ways with the Godrej Group? In fact, his decision to quit Godrej Consumer had surprised many at the time. He insists it was not that his relations with the Godrej Group had soured and points out that he remains on the board of group company Godrej Nature's Basket Ltd. The reason does not lie with Godrej Consumer but

QUICK FACTS

Global Consumer Products

STARTED: December 2013

FOUNDER: Arumugham Mahendran

BUSINESS: Foods and beverages; has already launched chocolates

PLANS: To launch fruit juices, packaged water, health drinks, ready to eat/cook products, snacks

TARGET: ₹1,250 crore revenue by 2020

FUNDING: $50 million by Goldman Sachs and Mitsui Global Investment

GCPL'S PRODUCTS AND ITS MAIN RIVALS

CHOCOLATE: Cadbury (70% market share), Nestle (16%), and others including Amul, Ferrero, Hershey

FRUIT JUICE: PepsiCo's Tropicana, Dabur's Real and Hector Beverages' Paperboat

DRINKING WATER: PepsiCo's Aquafina, Coke's Kinley and Bisleri

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with Godrej Hershey Ltd, a joint venture of the Indian conglomerate and one of the world's best-known chocolate makers. Mahendran led this JV from May 2003 to October 2012 and played a key role in either buying or building the JV's local brands like Nutrine chocolates, Jumpin juices, and Sofit energy drinks. While running the JV, Mahendran felt frustrated that Hershey wasn't introducing its best-known brands like Hershey's Chocolate bars, Almond Joy, Mounds, Drops, Bliss, Kisses, and Nuggets into the country. "I felt that Hershey's at that point wasn't showing adequate urgency in bringing their brands into the fast-growing Indian market," he says.

JESSIE PAUL, Founder and CEO, Paul Writer Strategic Advisory

"Chocolate requires limited shelf space and is an easy impulse purchase... [But] I am not able to identify a differentiator for the product in terms of positioning, pricing or distribution"

So when Hershey decided to buy out Godrej in September 2012, Mahendran made up his mind to enter the segment independently, with chocolates being the first segment GCPL entered. It launched the LuvIt brand in May this year. "The chocolate market in India is estimated at ₹7,000 crore and is growing at a healthy 20 per cent a year," he says, justifying the decision to enter the segment.

Launched only in South India for now, LuvIt has nine variants and 14 stock keeping units (SKUs in industry parlance) and is aimed at the 'mass-premium segment' targeting the 15 to 30 years old. With alluring names like Dairy Rich, ChocWich, Caramelicious, Crazypops and Chocopops, LuvIt products are priced between ₹5 and ₹45. But LuvIt will have to compete with established market giants like Mondelez's Cadbury, Nestle's KitKat, Ferrero Rocher and Amul. Mahendran remains unfazed. "The market is so big and growing at such a pace, that there is room for everybody. I am confident of taking our share," he says. Mahendran says because of his past relationships with both conventional and modern trade, LuvIt has been rolled out by 150 distributors. "Our aim is to stabilise this first in South India, before launching it across the country over the next six to 12 months."

But taking on established giants such as Nestle and Cadbury won't be easy. Jessie Paul, who runs marketing advisory firm Paul Writer Strategic Advisory, points out that food and beverages is a growing sector in India, and so is a good space to invest in. "Most new successful launches, however, have been those that have an Indian twist like MTR, Maiyas, Hector Beverages (Paperboat), and even ITC Food's Bingo," he says. Paul adds that GCPL's advertising has positioned the LuvIt chocolate brand towards young adults rather than kids, and the celeb endorsement has helped it gain visibility. "Chocolate requires limited shelf space and is an easy impulse purchase, which is why perhaps they chose it as their first product. [But] I am not able to identify a differentiator for the product in terms of positioning, pricing or distribution. Once the beverages business kicks off, they will have a large enough portfolio of snacks to fight for distribution."

Mahendran, however, sounds confident that the product will prove to be the differentiator and says that GCPL has already built a good distribution network. To keep costs low, GCPL also has pursued an asset-light model where it works with partners for manufacturing and focuses its attention on distribution and brand building. "However, we have helped source the best global technology for our manufacturing partners," says Mahendran.

After chocolates, GCPL is now readying a portfolio of products to unveil over the next few quarters. It is planning to launch fruit juices (concentrate, nectar and pulp), packaged drinking water, flavoured milk, health drinks, ready-to-eat/cook products including noodles, and a variety of snacks. It is already selling packaged drinking water in Chennai and parts of Andhra Pradesh under 'Cherio' brand, and will slowly roll it out elsewhere. Mahendran says all beverages of the group will be sold under the 'Cherio' brand.

GCPL is aiming at a turnover of ₹1,250 crore by 2020. The company is also open at making acquisitions to accelerate growth. "If there are some brands that fit into areas we want to be in, we will be the first bidders," he says. The targets, no doubt, are ambitious, and it remains to be seen whether Mahendran can pull off the difficult task of building another bouquet of successful brands. The odds seem to be in his favour. "What I do best is build great teams, help build brands." ◆

@venkateshababu

Is it Time to Bid Adieu

By BAKUL DHOLAKIA

Leverage Potential of Employees

For times immemorial, organisations have endeavoured to get the best out of the people working with them. But now, performance appraisal is all about performance management. It has become one of the most difficult and tricky terrains for managers, worldwide. Systems have evolved as a holistic developmental tool for managing the performance of people in an organisation. The use of quantitative tools to get an objective view of the performance of an individual also came into the picture.

Then, in 1994, Herrnstein and Murray came up with their seminal work: *The Bell Curve: Intelligence and Class Structure in American Life*. They argued that intelligence is measurable across racial, language and national boundaries, and is one of the most important factors related to the economic, social and overall success of a country. They said it was not possible to manipulate IQ and, therefore, future success manipulations were unlikely.

Soon, it was adopted across the globe. The bell curve demanded organisations to classify employees under three categories: high, average and low performers. While there were significant advantages of its use, there were disadvantages, too. The model suggested that high performers will be further motivated and continue to improve if they were given incentives such as stock options, performance bonus, paid holidays, etc. This, in turn, would make the average performers aspire to be part of the high performer category and with the help of training modules, improvement programmes, etc., it will increase the overall productivity and ensure accountability across the organisation. The bell curve was appropriate for an organisation with a large workforce, but could not be effectively implemented on a handful of people. The doubt about the fairness of the classification also loomed large.

The context in which it was introduced was very different from what it is now. Today, generations that were subjected to this system are very different in terms of aspirations and ambitions, psychological make-up and mind-set, and value system. The times when employees were considered as a factor of production have also evolved to a time when employees are acquired and retained to help them realise their potential for growth and performance. Earlier, there were sufficient examples where employees would be categorised in a lower category despite very good performance. If this happened once, it could be a one-off incident, but if it happened repeatedly then it would result in enhanced levels of anxiety and frustration, and would become counterproductive for the organisation.

Some organisations realised the negative impact of the system and did away with it. Like all systems, implementation was key to the success or failure of the bell curve. Paucity of time on the part of the manager and little understanding about the staff lead to failed implementations because everyone wants to get over with the process. Sincerity and developmental assessment is what is required. This would ensure any such system of classification works. It is important to have classification, but that should not mean we place people in them to make it look complete. It seems the time has come when you need to have more categories instead of the existing three: high, average and low performers, and a real-time approach to putting each employees performance on record as and when its happens. Any performance management system has to have both rewards and penalties, but should ascertain and achieve a productive outcome, as against a mix of productive and counterproductive, or under productive, outcomes. The underlying principle has to be about leveraging the potential that employees bring to the organisation and making the best use of it. That will come only with a positive productive view to performance assessment. ◆

Bakul Dholakia *is Director General, International Management Institute, New Delhi*

to the Bell Curve?

By ADIL MALIA

No-bell: An Obituary

It is high time that the corporate Rip van Winkle wakes up to write an obituary to the bell curve. And those who successfully do it could receive the much-coveted corporate 'No-bell' Prize!

This debate is the outcome of what exactly happens when a statistical tool introduced to check the robustness of a process is maniacally pursued by its protagonists – beyond a point the process and its purpose gets forgotten and the tool pretends to be the original process. And, as a result, this annual ritual sacrifices many deserving executives.

If there is any one process that has alienated and mispositioned HR managers vis-a-vis their business colleagues and rest of the organisation, it is the bell curve process. The misguided arguments of the protagonists in favour of the process would leverage around the following logic: Companies cannot afford to adopt absolute performance rating systems when the markets they operate in have a relative performance system; In absence of a viable alternate system there is a need to continue with the old devil; Bell-curve is the best and the fairest system to distribute rewards and compensation; and, every organisation needs a logical tool to explain away their reward distribution philosophy and the bell-curve has a statistical normal distribution logic supporting it.

For the uninitiated, statisticians call bell-curve, a 'normal distribution' curve. The model assumes that we have an equivalent number of people above and below the average and that there will be a very small number of people – two standard deviations above and below the average. In corporate application, it effectively means that if the final performance ratings of all employees were plotted on a graph and if that graph threw up a bell like parabola shape, the logical conclusion would be that overall a fair, normal and robust performance rating exercise was undertaken. But that is where the Achilles' heel pains. Managers have, over a period of time, allowed the bell curve test to masquerade itself as the sole purpose of the performance management process.

Strong prosecution arguments, however, back the plea for capital punishment to this rogue tool.

First, we are in the knowledge era. The bell curve performance is more suitable for classical industry workers whose operational performances could be accurately measured by outputs. Knowledge performers are high-quality input drivers.

Second, we live in VUCA (volatility, uncertainty, complexity and ambiguity) times where nothing is normal. Goals shift, strategies evolve, new challenges emerge and employees move from projects in quick succession to cope with dynamic market challenges. How can a performance rating distribution pattern follow a normal curve, which is otherwise suitable for a sub-normal business climate?

Third, employee performance has to be decoupled from its compensation or rewards distribution agenda. Performance review in VUCA times has to focus on development, coaching and performance enhancement of employees.

The forced ranking process results in capricious rankings, power struggles among managers and unhealthy competition among colleagues. It not only diminishes the value of top performers, but also pushes away mid-level performers into the bottom level, making them look like 'losers'.

Mathematical constructs have limited application to human behaviour, more so, when it has a developmental agenda with an emotional anchorage.

The bell curve applied to people performance creates more problems than what it strives to solve, including motivation and unfairness. The new world has no space for a rusted tool of the past. Let us bury it and on its tombstone let us write an epitaph :

"B.Curve, Rest in Peace. Forever. We are preparing for the normals of the new world!" ◆

Adil Malia *is Group President (Human Resources), Essar Group*

BATTLING THE DOWNTURN

Valuable lessons: Marshall Ma taking a class

EXECUTIVE SUMMARY

The 2008 global financial crisis resulted in many unexpected and dramatic challenges for the CEO of EasyFinance. Leading one of the best Chinese finance training companies, not only did Marshall Ma have to cope with a significant slowdown in revenue growth, he also had to deal with increasingly low morale among his management team who had just experienced four years of fast growth and were not used to operating in a downturn. In the midst of flat revenues and shrinking margins, how could Marshall and his partners retain, motivate, develop, and empower their key team members? The management team knew it would have to deal effectively with this challenge if EasyFinance was to have any chance of returning to growth when the economic cycle turned again in its favour.

By S. RAMAKRISHNA VELAMURI and XIN FU

Professional training companies began emerging in China in the 1990s. The first group was from overseas, subsidiaries of large multinationals – most of their clients were also multinational companies. Language and price barriers made the foreign training companies inaccessible for local Chinese companies. This fostered a group of small local training companies. Though their quality and price were initially much lower than those of their foreign counterparts, by 2000 some of the top Chinese training companies began to compete against foreign rivals. Low entry barriers and high gross margins made this industry one of the most competitive in China.

Guo Yan and her friend Lu Linping established EasyFinance in 2004. Both were professional trainers and had considerable experience as finance managers in multinational companies. They believed a company specifically focused on finance training would serve a niche market with strong potential that had been neglected by both Chinese and foreign training firms. The former lacked advanced training skills and international perspectives while the latter lacked in-depth knowledge of the Chinese market and the country's finance and taxation policies. The founders priced their company's services above other Chinese training firms but below those offered by international companies. Business picked up quickly and before long their courses were considered the best in China. Other competitors emerged after 2007, but none was big enough to threaten EasyFinance until 2009.

Guo Yan's husband, Marshall Ma, joined EasyFinance a year after launch as the third partner. He took responsibility for management issues so that Guo Yan and Lu Linping could focus on course design and delivery.

Product and Marketing Strategy Reaps Rapid Rewards

CEIBS

EasyFinance's training model required trainers to invest more time in class design and preparation. Therefore, the company could not rely on freelance trainers as many other Chinese training companies did, because they would not dedicate the time and effort needed to adapt their content and course delivery method. In its marketing, EasyFinance emphasised the company, not the individual trainers. The partners believed this would build the company's brand, and would make it easier to provide training services at a larger scale in the future.

EasyFinance enjoyed rapid growth in the four years following its 2004 launch. Its sales revenues almost doubled every year, and it became the leading brand in the niche finance training

market. EasyFinance had revenues of RMB 13.5 million for 2007. It attracted 2,646 participants to attend 121 open seminars in six major Chinese cities. Among participants, 63 per cent were from foreign or joint venture companies, and many were *Fortune* 500 companies. EasyFinance also offered 118 company-specific programmes, which accounted for about 40 per cent of revenues.

As 2008 began, the partners were projecting that annual revenue growth would again double. They planned to continue brand building efforts and hoped to offer career development and profit sharing for staff. To achieve these long-term goals, the partners decided to increase investment in talent development, brand building, and IT.

Managing and Recruiting Talent

Marshall considered people development his first priority. He spent a considerable amount of time to recruit, develop and retain team members. Marshall also sought to optimise the efficiency, capacity and competitiveness of the organisation.

Expecting business would double again in 2008, the partners decided to further expand the team and improve organisational competencies. EasyFinance recruited more than 30 people in 2008, across all departments. That summer, Marshall implemented key compensation structures for sales, administration and training staff. "We know our business relies heavily on our people, so we really do not want to underpay our staff. This is one of our general principles," said Marshall.

In the first nine months of 2008, EasyFinance achieved its objectives in terms of business development and organisational expansion. It became an Association of Chartered Certified Accountants (ACCA)-registered Continuous Professional Development (CPD) provider, and an Institute of Management Accountants (IMA)-registered Continuing Professional Education (CPE) provider. An HR manager and a finance manager were hired in mid-2008, in order to prepare for rapid growth.

Economic Crisis: The Unexpected Problem

When the global financial crisis began in September 2008, it took about a month before EasyFinance felt the effects on its business. The partners agreed that aggressive expansion was no longer wise and halted further staff recruitment, except for trainers.

In November, traditionally the peak training season in China, EasyFinance's revenues nosedived – over 60 per cent of clients said they would delay, reduce or cancel their training programmes. Business was anaemic in the last two months of 2008, and the company failed to reach its revenue target of RMB 27-30 million for the year; instead annual income was RMB 25 million.

EasyFinance responded to the economic crisis by changing to a more conservative growth strategy and set "survival" as its goal for 2009.

> A major concern for Marshall Ma was how to motivate trainers when their schedules were not full. If the company did not provide an attractive platform and incentive system, they would leave and could set up a new rival training company

Cost control and new course development were its top priorities. Previously it had a no-discount policy, but knowing the importance of cash flow in a downturn it began to sell discounted course packages to clients if they agreed to pay the whole package price in advance. It nearly doubled the number of public seminars (to 400) in nine cities in 2009. Marshall decided to increase prices slightly, although the sales team strongly recommended a price reduction of 30 per cent. EasyFinance was unable to maintain its premium pricing for company-specific courses.

Transformation of Customer Profiles and its Consequences

The economic crisis had not only created frustration and lowered staff morale; it also led to unexpected challenges in business operations.

During the first half of 2009, EasyFinance's client base changed from multinationals to state-owned and

local private companies, as a government stimulus programme had spurred these companies to invest more in training. This brought more complexity to the way EasyFinance sold and delivered its programmes. Compared to multinational companies, most state-owned and local private companies had far less experience in training. They were unwilling to pay a premium for quality yet had very high expectations regarding results. Convincing new clients to buy a training programme took more effort, as did servicing them. Marshall feared his team members would lose their confidence and interest in their jobs.

Another concern was the competency of the middle managers. Most were under 30 and had difficulties performing in such a difficult situation. Marshall found he had to be deeply involved in the daily operations of each department.

Marshall was also concerned about how to motivate trainers when their schedules were not full. If EasyFinance did not provide an attractive platform and incentive system, they would leave, and could set up a new training company and become competitors.

2009: The Silver Lining

By the summer of 2009, it was clear the situation was not as dismal as had been expected. EasyFinance did not lose much of its business volume. Supported by the sales and marketing department's tremendous efforts, its first half sales revenues were only slightly lower than in 2008. Trainer recruitment was also positive. The company also had 11 trainers.

In surviving the crisis, Marshall realised that the core competitiveness of EasyFinance was its team. The young, efficient, and professional individuals with a strong desire to grow had a long-term commitment to the company. The stability of the team kept EasyFinance ahead of its competitors.

2015 Updates

The global financial crisis in 2008 was an important turning point for EasyFinance. First, business growth slowed: the compounded annual growth rate for sales revenue dropped from 140 per cent in the period from the company's founding in 2004 through 2008, to 12 per cent between 2009 and 2014. The sales revenue of 2014 was about RMB 46 million. Second, EasyFinance's clients' profile shifted permanently from multinationals to state-owned and local private companies. This change brought EasyFinance more diverse and dynamic training demands. Marshall thought team competency was the bottleneck threatening future business growth, so he invested more resources in talent development.

In the ensuing three years, Marshall realised that while team competency was important, it was not the only thing needed. The traditional organisational structure was also a drag on potential growth.

Said Marshall: "Initially, our sales representatives communicated with clients to learn their training demands and reported them to supervisors; then the supervisors reported to the sales manager and the sales manager spoke with the trainer team who then more or less customised and delivered the training project. This chain was quite long and errors were possible at every step. It also meant that junior staff would never have a chance to learn how to make decisions. More importantly, the trainers had no incentive to customise their training products to satisfy customers' needs. We needed a new structure to shorten the communication chain, reduce the margin for error, provide an opportunity for junior staff to grow, and to align the interests of the trainers, sales team and clients."

Marshall designed a communication platform named the "cloud"; it was a messaging group that included all trainers and the managers in finance, logistics as well as himself. Sales supervisors and representatives were put in charge of collecting clients' demands and then sales supervisors sent the information to the "cloud". All trainers and functional heads could respond to these demands freely. A temporary project team was then formed to address specific demands. All communication within the "cloud" was transparent. Finally, all sales staff and trainers would get a proportion of the project profit as a reward.

Signs off Marshall: "With this structure, we no longer need standardised talents with similar skill sets. People with different core competencies will find different resources in the cloud and everyone has the chance to grow and succeed in this structure. I hope it will help EasyFinance break the bottleneck of talent development and realise future business growth." ◆

This case was written by S. Ramakrishna Velamuri, professor of entrepreneurship, and Xin Fu, doctoral candidate at CEIBS, with editing support from Janine Coughlin.

Q *What lessons can we learn from EasyFinance? Post your comments at businesstoday.in/casestudy-easyfinance*

The best response will win a Harvard Business Press Pocket Mentor. Previous case studies are at businesstoday.in/casestudy

CEIBS

If EasyFinance has to scale, organisation design and capability building should be top priorities

The founding team of EasyFinance and its CEO Marshall Ma certainly demonstrated great entrepreneurial abilities in coming up with a business model that took advantage of the emerging finance training market, positioning themselves in a segment that was between global players and local players and coming up with two offerings for two client groups – public seminars and company-specific programmes. The growth in revenue between 2004 and 2008 clearly validates that they got their core model right. In fact, they were able to manage the 2008 crisis quite well.

Unfortunately, building an organisation calls for a lot more than just entrepreneurial fervour. To begin with, Marshall Ma never had a clear handle on what problem he was trying to solve on the organisation and people front. He seems to have taken a simplistic view that hiring more people, paying them more money and training them would solve all his problems. Because his problem was ill-defined, his solutions were not helping him build a sustainable organisation.

GANESH CHELLA

Founder of Totus Consulting

"It appears to me that the design of the EasyFinance organisation and its pivotal roles did not support its strategy"

From available data, it appears to me that the design of the EasyFinance organisation and its pivotal roles did not support its strategy. Because the design was not aligned to its strategy, it did not have the right capabilities to achieve scale, align roles to the needs of clients and facilitate effective internal collaboration across departments to deliver client value.

Instead of paying attention to some of these structural issues, Marshall Ma ended up focusing on things like morale and motivation.

Here are a few areas of organisation design that seem to warrant urgent attention:

- Sixty per cent of EasyFinance business seems to have come from public programmes and 40 per cent from company-specific programmes. All of us understand that selling public seminars is very different from selling company-specific programmes. While the former will call for B2C sales capabilities, the latter will call for consultative selling given that each client would like their programmes to be customised to meet their specific needs. This will bring up the need for building consultative selling capabilities within the organisation instead of trying to have layers of sales employees trying to act as mere messengers. While Marshall recognised that he had a problem in this area, his solution of creating a communication platform was certainly not going to solve it. The capability gap needs to be addressed.
- Given the growing volumes across both segments and the resultant pressure on trainers, I am not sure if Marshall recognised the need to determine the need for centralisation and standardisation. For example, I see the need for a strong central team to work on content creation. This is in line with his philosophy of the company's brand standing out. This would also de-risk the firm from potential attrition.
- As the firm was hiring more and more trainers and wanted them to be in-house, I see the need for standardisation of trainer styles and training delivery methodologies.
- Marshall may also need to examine if there is need to build the capability for handling large accounts.
- For a service business it is important to establish flat process-based teams rather than hierarchical and functional teams. This will ensure that everyone adds value to the business and does not create bureaucracy.

If EasyFinance has to scale, organisation design and capability building will need to be the first port of call.

EasyFinance must focus on the premium market without dropping prices

Managing operations in times of volatility and downturn is a challenge in general but particularly so in function that are not generally perceived to be "core" of the organisation. Thus in any downturn, the first budget to be slashed would be the training budget, apart from the other austerity measures (like slashing travel budgets) that corporations undertake. However, Ma should look at this as an opportunity to examine the business model on how he would like to diversify the risk and ensure that there is a stable core that is giving adequate margins. There is another challenge in the EasyFinance model – it focuses on the corporate brand rather than the individuals who deliver the training programme. This means that there could be no "stars" on the trainer list that can outshine the EasyFinance brand. This also means that there has to be significant standardisation in the delivery processes so that the customers get a common feel at the end of each training programme.

The challenges before Ma are two-fold. How does he insulate the company from global volatility? A part of the answer has naturally been found in the local market with significant customisation. But this component is required to maintain stability in the business in the light of global volatility. So Ma, while retaining stability, has to reach out to the markets to grow – and growth in this business comes significantly from the vibrancy of the market. It is important to ensure that there is a continuous and dynamic offering of programmes to suit the concerns of the time.

The second challenge is: how does Ma actively participate in the international segment of the market and maintain his brand premium? The idea of not offering discounts on the public seminars, and instead increasing the price was a smart move – this will help in continuing the optics that they are indeed a premium company, while the pricing on a specific case could vary depending on the client, without denting too much on the brand perception. However, Ma has to regain the market in public seminars. If we look at the numbers, it is clear that while revenue from public seminars has fallen to a third after the downturn, revenue from company-specific seminars has fallen by half, broadly indicating the type of volatility and stability in the respective markets.

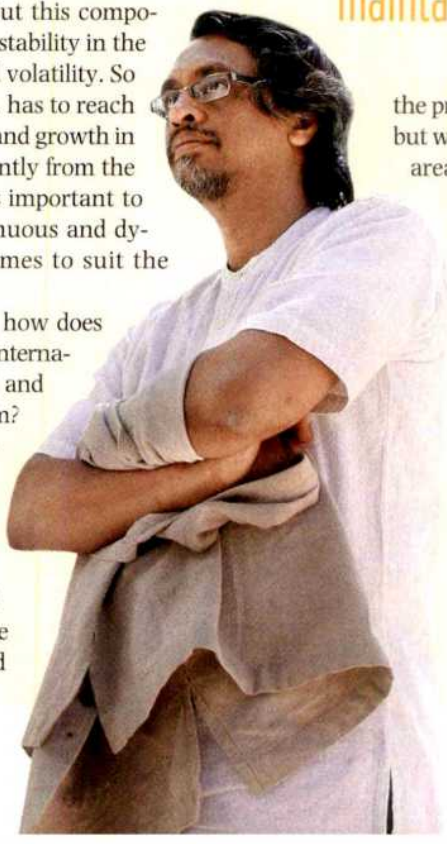
As EasyFinance recovers from the downturn, its biggest challenge would be to regain the public seminar market and increase the share of international companies in its internal pie. At any given time, Ma possibly has to ensure that at least 40 per cent revenue comes from international companies while maintaining about 30 per cent from state-owned corporations and the rest from other companies.

At this time, he needs to concentrate on the premium market without dropping prices, but with some aggressive marketing. This is an area where Ma could possibly get speakers whose profile could be larger than the EasyFinance brand, so that the joint brand equity of EasyFinance and the speaker attracts more audience. Ma needs to urgently regain this market, not lose on the pricing and continue to make the presence of EasyFinance felt. For this, there has to be a smart choice of themes and speakers to ensure that EasyFinance continues to be a relevant training outfit, with compelling themes even in situations of downturn where companies are still willing to invest in knowledge resources. That continues to be the challenge of EasyFinance. ◆

M.S. SRIRAM

Visiting Faculty, Centre for Public Policy, IIM Bangalore

"The challenges before Ma are two-fold: How does he insulate the company from global volatility? How does he maintain his brand premium?"



NILOTPAL BARUAH

SMALL LEVELLER

Has technology really levelled the playing field between small and big companies? A power-packed panel in Bangalore debated the subject with gusto. By ALOKESH BHATTACHARYYA

Unexpected afternoon rains washed the city of Bangalore clean of dust and grime on July 31, but also brought with it the usual after-rain-effect – traffic jams. Yet, people flocked to hotel Vivanta by Taj in Whitefield, the IT hub situated in Bangalore's eastern fringe, to participate in a fascinating roundtable discussion organised by *Business Today*, on how Cloud and SaaS technologies are levelling the playing field between SMEs and big companies. In a world where technology is finally allowing the small fry to play with the big boys on almost equal terms, this was certainly an apt topic. And the line-up of panellists *BT* had put together was also the most appropriate.

Leading the way was Bharat Goenka, Cofounder and Managing Director of Tally Solutions, the maker of the eponymous accounting software that is almost ubiquitous in small companies. Then there was Anant R. Koppar, a serial entrepreneur who founded Kshema Technologies earlier, and is now Chairman and CEO of KTwo Technology Solutions, a healthcare solutions provider. Bringing in a unique perspective was Aravind Melligeri, Chairman and CEO of Aequs, which provides precision machining, sheet metal fabrication and other services to companies like Airbus, UTAS, Eaton, Bosch, etc. Rajesh Jagtiani, CEO of Think7, brought in a two-dimensional aspect through run-

Panel discussion of SME Awards event at businesstoday.in/sme-panel

Brainstorming session: Vivek Kulkarni, Founder & Chairman, Brickwork India; Rajesh Jagtiani, CEO, Think7 Business Systems; Aravind Melligeri, Chairman and CEO, Aequs; Anant R. Koppar, Chairman and CEO, KTwo Technology Solutions; Bharat Goenka, Co-founder and Managing Director, Tally Solutions; Venkatesha Babu, Deputy Editor, *Business Today*

ning a company that makes software for auto manufacturers, and also having an auto components company owned by the family. And bringing up the rear was Vivek Kulkarni, former IT & Biotechnology Secretary of Karnataka, who founded Brickwork Ratings, an SME ratings company. The panel was moderated by Venkatesha Babu, *BT*'s Deputy Editor.

The discussion started with Goenka making clear that he didn't believe moving applications from desktop to cloud would help. "In the long run, it is going to add cost," he said. "It is about whether you can create connected applications. How can SMEs connect to each other, connect to the supplier, customers, lending sources, to banks for transactions and payments... So, connectivity will become the most important leveller." He added that some of those levelling advantages will reside in the cloud, some in offices, and some in devices.

Disagreeing with him was Melligeri, who started with an example of how he started with Quest Engineering, a company he founded earlier. "The first day we spent $45,000 to buy software, and $20,000 for an SGI computer," he said. "Today you don't need to own such powerful computers. It will probably be on Amazon (cloud services)." Melligeri's argument was that as SMEs try to go global, cloud-based SaaS (software as a service) applications will take away the geographic barriers and enable them to compete globally with big companies.

Brickwork's Kulkarni, too, was in favour of cloud and SaaS technologies. His argument was that earlier people would pay ₹32,000 for a desktop and ₹18,000 for software. But such software would be loaded with features, most of which would not be used. Plus, the software would be upgraded, so companies had to upgrade their systems and pay again. "Right now, this is all available on the cloud," he said. Kulkarni added that companies can use cloud services on data centres that are the size of football fields in America, and used the example of lodging rental company Airbnb, which uses Amazon's data centres, as an example to drive home his point.

Think7's Jagtiani started by saying that India itself is not a level playing field, and referred to a report that said just about 260 companies among 20,000 surveyed had more than 60 per cent of the profits. "When we started Think7, we realised it's not about cloud or not. Today, it's more about trust in business," he said, adding that the timing for cloud technologies is perfect for India. More than 90 per cent of Think7's customers are on the cloud, and they are all SMEs.

KTwo's Koppar proffered views from the IT solutions providers' angle, saying that providers need to understand that these technologies were there 30 years ago as well, and that cloud is only a new name. He agreed that for the provider, cloud and SaaS have given a level playing field. "I can put up a solution on the cloud and ask clients to use it," he said. "Ten years ago, we did not have this level playing field." At the same time, he warned that the tag of affordability with cloud solutions might not last forever. "At this point, cloud may be cheap; later it may become expensive. So, it is better to go with your own systems and software."

Security on the cloud was another issue that was hotly debated. Jagtiani said security was well taken care of by companies like Amazon and Microsoft, while Kulkarni pointed out several instances of data residing in cloud having been hacked and private data accessed by unauthorised and unscrupulous people.

The evening ended with an engaging Q&A session between the audience and the panellists, which took the discussion beyond the stipulated time. By that time, the skies had also cleared up and a cool wind replaced the muggy conditions in the city.

The roundtable was sponsored by Reliance Commercial Finance, which is also the sponsor of the *BT* Best SMEs Awards. Reliance Commercial Finance is presented by Reliance Capital Ltd. ◆

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All About Windows 10

Microsoft's Windows 10 is available for free upgrade for existing Windows 7, 8 and 8.1 systems. But is it worth an upgrade? **By NIDHI SINGAL**

What's Good

Start up time: With Windows 10, your machine powers up within seconds. Everything seems to launch at a blazing fast speed. While the Windows 8 start up time was much quicker than Windows 7, Windows 10 is even better. And this isn't just restricted to powering on the device, but also while launching any program or simply browsing the files.

Start menu is back: If you have ever used Windows operating system (OS) prior to Windows 8, you will instantly feel at home. Thankfully, Microsoft has decided to bring back the Start menu where you can access all your software and search drives. Live Tile dominated the user interface (UI) on Windows 8, and it is very much present here. You can, however, get rid of it by unpinning the app tiles from the Start menu. Even the settings and power options that were difficult to access on Windows 8 are now back in the Start menu. A new search bar added to the task bar that runs a search on the web and Windows works seamlessly. Overall, Windows 10 is intuitive and easy to use.

Multiple desktops: Microsoft has introduced multiple desktops to Windows 10. Easy to access, it gives you more space to organise data. You can also easily switch between the desktop – one desktop can be for work, other for home, and you can even have one for kids (if they are using the same machine).

Microsoft Edge browser: I have been using a Windows machine for a long time, but my default browser wasn't Internet Explorer. With Windows 10, the company has replaced it with the Microsoft Edge browser. The web pages load much faster now. It also has a feature of scribbling a note on the web page screen.

Aero Snap: Windows 10 also gives access to use multiple apps side by side on the same screen.

Dragging an app to either the left or the right side of the screen automatically resizes it into half screen space. Instantly, the other app thumbnail appears and clicking on the same resizes it to the second half of the display.

Action centre: Windows 10 has an action centre that notifies you of new emails, system information, apps, etc. It also gives you access to tablet mode, all settings, battery saver, virtual private network, Wi-Fi and airplane mode. It is an easy way to access the latest notification and basic settings.

Across platforms: I tested Windows 10 on a hybrid and realised that the desktop mode is slightly different from the tablet mode. Under the desktop mode, the Windows key comes in to play. You have a complete desktop at your disposal. One can easily switch between the desktop and tablet mode from the bottom right menu, under action centre. Microsoft also plans to bring a similar interface for Windows 10 smartphones.

Windows 10

What's Bad

Cortana: With Windows 10, Microsoft has introduced voice assistant software Cortana, which, the company claims, understands the context and answers accordingly. While this is one of the best features on Windows 10, it isn't going to be launched in India straight away. Cortana will be first made available to insiders (developers with Microsoft) in coming weeks. It will be available for consumers once the localisation has been done.

Automatic updates: Until now, you had an option to turn off the automatic update features and update the system only when you want to. But now, with Windows 10, the auto-update cannot be stopped. The software periodically checks for system and app updates, and downloads and installs them. The only option you have is to select when to restart the system after updating so that you don't lose the data you had been working on. However, this feature is accessible in Windows 10 for businesses only.

Configuration needed: **IF YOU USE** Windows 7 (32-bit or 64-bit) or Windows8/8.1 (32-bit or 64-bit), you can upgrade to Windows 10. But you need 1GHz processor or faster, 1 GB RAM for 32-bit, or 2 GB RAM for 64-bit Windows 10. The hard disk should be at least 16 GB for 32-bit and 20 GB for 64-bit, the graphics card DirectX 9 or later and display 1024x600 pixels or higher.

Availability: **STARTING JULY 29,** Microsoft began the rollout of Windows 10 OS in a phased manner. Those who had registered for the reservation list have already started getting the updates. One can also download it from *https://www.microsoft.com/en-us/software-download/windows10*.

Should I upgrade? **HONESTLY, WINDOWS 10** is a much better OS than any of its predecessors. And you also have the option to downgrade if you are unhappy. But before upgrading, do take a backup of your data and also make sure to read the experience of others using the same machine.

How to downgrade: **IF YOU ARE** unhappy with Windows 10 and want to downgrade to the older OS, do it within one month of updating. Also, do backup all the data else you might end up losing some. The old version is stored in 'Windows.old' folder. You can get started by clicking on 'Recovery' (from settings > update & security > recovery) and selecting go back to 'Windows 8.1 or Windows 7'. Simply follow the instructions to downgrade your system. This process is quick and will not take more than 15 minutes. Also, avoid running any disk cleaner software during this period as it might remove your previous Windows backup files. ◆

Excellence Redefined

Motorola's Moto G (3rd generation) isn't about specifications but the user experience. **By NIDHI SINGAL**

Focused on enhancing the user experience, Motorola has upgraded its new Moto G with some necessary features. It has continued with the same five-inch HD display, with Gorilla Glass 3 protection, offering decent viewing angles. The textured back provides a good grip. The rear panel is removable, housing two micro SIM slots and a microSD card slot. Both the SIM slots are 4G LTE enabled. However, the battery has been sealed and is non-removable. One noteworthy feature the new Moto G has is the IPX7 certification, which makes it water resistant.

With every brand having a custom user interface, Motorola has continued with the stock Android OS, giving the new Moto G a snappy feel. Yet, the company has added few features that come in handy. The Moto Display shows the notification and time as soon as you pick up the phone, eliminating the need to turn on the display first. This feature was first found on the Moto X and is now a part of Moto G as well. Quick Capture activates the camera with a flick of the wrist and Chop Twice activates the torch light by making a chopping gesture. Moto Migrate prompts you to migrate your data from the old device to the new one.

Motorola has also enhanced the imaging experience by adding a 13 MP rear camera and a 5 MP front facing camera. As per the company claims, the rear has got the same sensor used in Nexus 6. It did a good job at capturing images in well lit surroundings, but it isn't the best snapper in low light. The front-facing camera was decent for capturing selfies. The smartphone also captures full HD videos.

Overall, the new Moto G manages to handle basic tasks, such as web browsing, downloading apps, watching videos on YouTube and playing games without any lag. The device did slightly heat up after a long gaming session. The phone is powered by 1.4 GHz quad-core Snapdragon 410 chipset and is paired with 2 GB RAM. The phone comes with 16 GB onboard storage and supports expandable memory. The 2470 mAh battery lasted me a day with average usage. ◆

BAG IT OR JUNK IT: Overall experience of the Moto G 3rd gen scores over its competition with better specifications

RATING: 4.5/5

PRICE: ₹12,999

PLUS: Water resistant, camera

MINUS: Heats up

A Flagship Killer?

The OnePlus 2 smartphone is being touted as the '2016 Flagship Killer', but falls a bit short of expectations. **By NIDHI SINGAL**

OnePlus One was a fine piece of hardware. When launched a year-and-a-half ago, it packed in all the high-end specifications and features at half the price of flagship devices. The success paved the way for OnePlus 2, which sounded even more promising with the latest processor on Qualcomm 810 chipset, 4 GB RAM, Type C charging port, a fingerprint scanner, better camera and a bigger battery. It has the best specifications at half the price of the flagship smartphones, but not all is well.

OnePlus 2 has 64 GB internal memory, of which 54 GB is user accessible. Its 5.5-inch full HD display has great viewing angles. The sunlight legibility has been improved and everything appears to be sharp and crisp. It continues to have a sandstone finish rear, which is removable, giving access to two nano-SIM slots. The volume keys have been moved to the right panel, just above the power key. The speaker grills are placed at the bottom along with the charging port. OnePlus has also added a notification toggle that switches between all notifications, priority interruptions or no interruptions. The side panel is made magnesium alloy. A fingerprint scanner has been added on the home button below the display, which works seamlessly.

Without increasing the megapixel count, OnePlus has improved the camera optics on board. The 13 MP camera is paired with optical image stabiliser, laser auto focus and dual LED flash. It captured images quickly and the results were sharp and offered natural colours. Low-light imaging was also decent. But there isn't any gallery app on the Oxygen OS. You have to access images from the camera app only. Also, the interface isn't user friendly. The Oxygen OS isn't impressive and lacks basics such as support for exchange email. While OnePlus 2 manages most of the basic tasks with ease, the side panels and the top front of the phone tends to heat up after a few minutes of watching YouTube videos or playing games. The 3300 mAh battery onboard doesn't last long. It takes more than two hours to charge and doesn't even last a full day. ◆

@nidhisingal

BAG IT OR JUNK IT: Has its share of low points, which can be fixed with software updates

RATING: 3.5/5

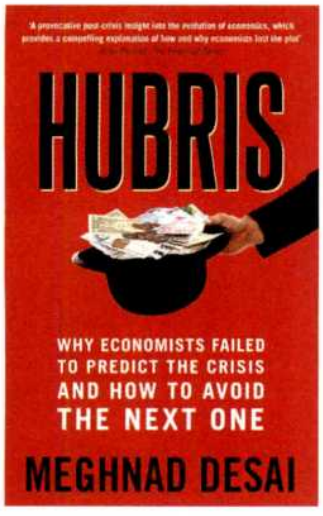
PRICE: ₹24,999

PLUS: Display, camera

MINUS: OS, battery, heats up

A Self-assured Critique

Meghnad Desai has written a remarkable book on the state of the economics discipline and of the world economy. By SANJAYA BARU



Hubris: Why Economists Failed to Predict the Crisis and How to Avoid the Next One

By Meghnad Desai

PAGES: 304

PRICE: ₹399

Collins Business

The book is an important contribution to contemporary economics as well as the history of economic thought

The economics profession has been in disrepute ever since the transatlantic economies slipped into a crisis and pulled global growth down. China, the best performing economy of the past decade, has not yet produced a Nobel Prize winner in the discipline, while Europe, home to so many Nobel laureates in economics, is unable to stabilise itself. Clearly, there is something as wrong with the economies of the West as with their economics.

Meghnad Desai, Emeritus Professor of Economics at the London School of Economics, member of the House of Lords, and a regular face on Indian TV, has written a remarkable book on the state of the economics discipline and of the world economy. It is a critique of the self-assuredness of a discipline in crisis.

Desai's argument is simple. Economics, or rather 'political economy', as the discipline was originally called, developed as an intellectual attempt at understanding the way goods and services are produced, traded and consumed, and incomes are generated and distributed. It was a study of the practical world. Yet, in seeking to be regarded a 'science', economics not only became far too mathematical in exposition but also mechanical in its understanding and interpretation of human behaviour and social organisation. Relevance to an understanding of the real world was sacrificed at the altar of technique.

The first 200 pages offer a tour de force of the evolution of modern economics, and Desai writes for the lay reader, with the exception of chapters four and five that only trained economists may find more accessible than others. The hero in Desai's narrative is Joseph Schumpeter, the celebrated author of *The Theory of Economic Development*, who understood the significance of innovation and technological progress to economic development. Schumpeter's theory, that development progresses in long cycles of expansion and contraction of economic activity, was statistically validated by the Russian economist/statistician Nikolai Kondratieff, who discerned a 40-year cycle – two decades of growth followed by two decades of slowdown – that explained the ups and downs of western economies from the end of the 18th century through to the middle of the 19th.

Desai sees the global economic slowdown following the Lehman collapse and the transatlantic financial crisis in 2008 as the beginning of the downswing of a Kondratieff cycle, after the 1992-2007 boom period. Hence, his prognosis for economic growth over the next decade: things will go down before going up again.

What makes the current cycle different from the four cycles of the 19th and 20th centuries is the rise of China and other Asian economies. Can growth in these economies, and the innovation cycle in the US lift the global economy up? The prognosis for Europe is bleak, but there is hope for Africa.

The only weakness in Desai's argument is an inadequate appreciation of the role of public policy. Can policymakers learn from the past and intervene so as to modulate the impact of Kondratieff and other shorter-term (Juglar and Kitchin) cycles? It is possible that Desai would suggest that economic policymakers must first relearn their economics if they have to come up with relevant solutions.

Desai's book is an important contribution to contemporary economics as well as the history of economic thought that many will greatly profit from reading. ◆

The reviewer is Director for Geo-Economics and Strategy at the International Institute for Strategic Studies

See interview with Dheeraj Sinha at businesstoday.in/grey-sinha

Marketers have been sent on a wild goose chase

Have marketers in India been chasing a mirage? Is the bottom of the pyramid (BoP) market a myth? Is our jugaad mindset, being celebrated as an advantage, actually a handicap? In his second book India Reloaded, *scheduled to launch mid-September,* **DHEERAJ SINHA,** *National Head of Planning at Grey (a WPP group company), boldly puts the cat among the pigeons. Sinha argues his case compellingly, juxtaposing numbers with rich, fascinating anecdotes, forcing you to stop in your track and think. Excerpts from a conversation with* **CHITRA NARAYANAN**:

In your book you say India is not really a mass market place. That sounds counterintuitive.

Yes, we went on a wild goose chase. If you look at the numbers: 350 million middle-class consumers, 500 million under the age of 25 – big numbers were thrown, which kicked up the euphoria. But if you cut to the real numbers, there are just 50 million people who own cars. There are 600 million people who have no access to toilets or drinking water. So the size of our middle class cannot be all that large. If you look at brands that have been successful, they are the ones that have not stripped down their products to appeal to the BoP customer. The poor customer wants an upgrade in his or her lifestyle. What I am suggesting is a real investigation of the size of the market and slightly more upgrade market thinking rather than mass market thinking. The belief that we can strip down a car and poor people will lap it up, that is not going to happen.

But so much money has been invested by marketers on BoP? Is that a mistake?

Just do a research on small town India and the youth there are saying that if the size of my dreams is big then why shouldn't the size of my mobile phone be big. That segment is driven by desire, by aspirations. So the conversation about stripping down products for the BoP segment needs rethinking. I am not a fan of frugal engineering.

While reading your book it appears that Indian consumers go for "safe" and are risk averse.

The mindset is that if you are selling more you are good. Which means from the consumption perspective, we are a market for relevance. Most consumers here are at the stage of their first or second experience of consumption. They are buying their first car, first flat screen and the thinking is that we would much rather go with things the world has experience with. If you look at any category, the top three players have 60 to 70 per cent of market share. We are more lopsided at the top and challenger brands are not doing so well. I think one of the solutions for challenger brands is to go for scale. ◆

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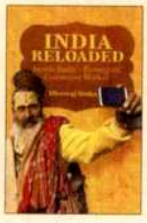
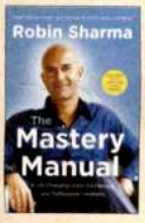
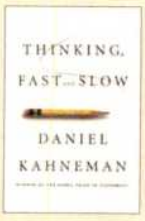


India Reloaded
by Dheeraj Sinha
Westland
PRICE: ₹495
PAGES: 222

BUSINESS BESTSELLERS*

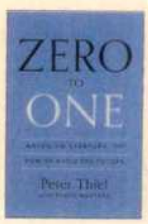


The Mastery Manual
By Robin Sharma
Jaico Publishing House
Price: ₹199



Thinking, Fast and Slow
By Daniel Kahneman
Penguin
Price: ₹499

Becoming Steve Jobs
By Brent Schlender
Hodder and Stoughton
Price: ₹699



Zero to One
By Peter Thiel
Random House
Price: ₹499

*Top books by sales for July 19 to August 1, 2015; Includes only books released after July 1, 2014; Information provided by amazon.in

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Sungard Solutions India Private Limited
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Description: Head the Mumbai location and take responsibility of the location, Manage Profit & Loss of the location.

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Job ID: 17239234
Description: Manage end-to-end client relationship including pitching, negotiation, contracting, billing / invoicing, payment collection, campaign activations,

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Infogain India Private Limited
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Jobs ID: 17265538
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EMC Corporation
Tech Support Engineer II
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Description: Applies general systems level technical expertise to standard to moderately complex systems level customer issues.

Tech Mahindra Limited
Java+CQ5
Location: Noida, Pune
Job ID: 17267486
Description: Good experience in Java/ J2EE along with Adobe CQ5 and exposure Digital Marketing Platform.

Replicon
iOS Developer
Location: Bengaluru / Bangalore
Job ID: 15876141
Description: Responsible for many phases of the software development lifecycle including technical research, requirements analysis etc.

Atlas Systems Private Limited
Oracle DBA - L1/L2/L2 Support
Location: Bengaluru / Bangalore
Job ID: 17234041
Description: Experience of managing multiple Oracle 10,11g standalone and RAC production databases.

Akshay Software Technologies
Tridion-SE
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Job ID: 16842703
Description: At least 3+ years hands on development/implementation experience in SDL Tridion 2011 or higher, Tridion Templates development.

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Quotient Consultancy
PB Sales
Location: Mumbai
Jobs ID: 17256671
Description: Responsible for CASA Sale Cross selling and other banking product.

Talent Corner Hr Services Private Limited
Digital Marketing Manager
Location: Mumbai, Pune
Job ID: 17261197
Description: Experience managing PPC, SEO & Affiliate programmes, Strong understanding of current online marketing concepts, strategy & best practice.

Vitasta Consulting Private Limited
Marketing Manager
Location: Mumbai
Job ID: 17253020
Description: Experience in Marketing: Handling ATL and BTL activities, Should be from Financial Services background.

Triangle Simulation Pvt Ltd
Sales Cordinator
Location: Mumbai
Job ID: 17255229
Description: Provide sales and administrative support involving efficient handling of top and confidential agreements.

Genie Consultants Private Limited
Territory Manager
Location: Chennai
Job ID: 17262147
Description: Marketing, Space Sell... Banking, Insurance, Newspaper, T... Telecom, Hard-core sales ppl- Direct sale... experience is added advantage.

Aparajitha Corporate Services Limited
Marketing Manager
Location: Chennai
Job ID: 17121205
Description: Good in communication, Travel to client place if needed, Development and Result oriented person.

Quinnox Consultancy Services Limited
Pre Sales Lead
Location: Mumbai
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Location: Mumbai, Thane
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Description: 2-6 years in to Internal Audit from Insurance Industry, Internal Audit for Insurance Team.

Servocraft HR Solutions Private Limited
Finance Executive / Sr. Finance executive
Location: Chennai
Job ID: 17128010
Description: Preparation of bank statements and payments received for distribution to the Finance Administrator for lodgement preparation and posting of

TIBCO Software India Private Limited
Accounts Payable
Location: Pune
Job ID: 17253715
Description: Manage supplier invoices (using Oracle and 170 Mark View), Knowledge of Expense reports/claims processing.

Exl Service.com India Private Limited
Associate / Senior Associate - Accounts
Location: Bengaluru / Bangalore
Job ID: 17252485
Description: Responsible to perform variety of accounting functions related to Contract Administration - Order Processing new contracts.

Stringz
Finance Executive
Location: Cochin / Kochi / Ernakulam
Job ID: 17254958
Description: Knowledge and Experience in Payroll Management, Knowledge and Experience Computation of Income Tax of Personnel's.

Capgemini Business Services India Limited
Accounts Payable (P2P)
Location: Chennai
Job ID: 17259947
Description: Should have good experience in Accounts Payable (P2P) (payments ,Vendor Management, invoice processing).

Give India
Account Executive
Location: Mumbai
Job ID: 17239910
Description: To ensure proper data entry and maintenance of records for payroll and support to day to day activity of the

dEEVOiR Consulting Services Private Limited
Sr. Associate - Accounts Payable
Location: Mumbai
Job ID: 17248394
Description: Strong knowledge of best practice Accounts Payable processes, including digital imaging and workflow

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Vinita Gupta
CEO, Lupin

Healthy Appetite

VINITA GUPTA, CEO of Lupin, and the eldest daughter of founder D.B. Gupta, orchestrated a major acquisition in the US on July 23. With the $880 million acquisition of GAVIS Pharmaceuticals and Novel Laboratories, Lupin will now have its first manufacturing plant in the US. It also positions itself as the fifth-largest pharma company to have filed generic drug marketing applications with the US FDA.

US-based Vinita, who handles Lupin's international business and acquisitions, was elevated to her current post in September 2013. "We are looking at more acquisitions in the near future after digesting the current one," she told *Business Today* a couple of days after acquiring GAVIS, founded by India-born scientist Dr. Veerappan Subramanian. Though the company had sales of only $96 million in 2013/14, its drug pipeline has great potential and that was what made Lupin pay the premium, says Vinita.

Ashish Bahuguna
Chairman, FSSAI

In Safe Hands

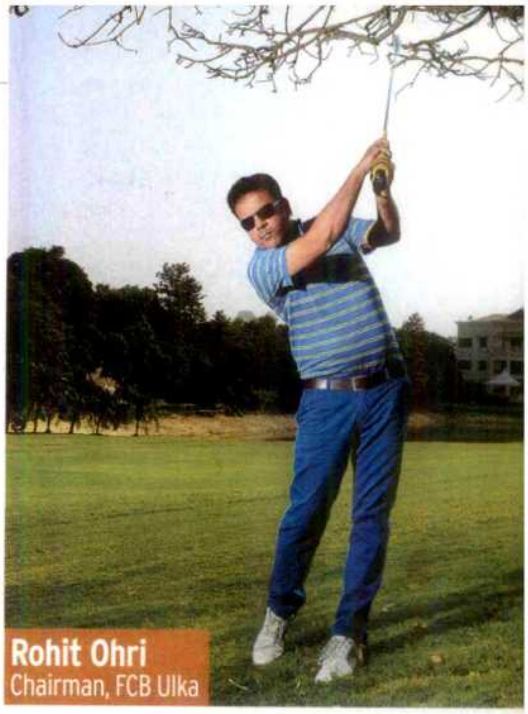
ASHISH BAHUGUNA is the new head of Food Safety and Standards Authority of India (FSSAI). The former agriculture secretary will have a plateful of issues, including the never-ending Maggi row, to deal with. As H.G. Koshia, Commissioner of Gujarat Food and Drugs Control Administration, puts it: "There is a lot of expectation from him given his stature." Sceptics point out to the challenges since health is a state subject and direct interventions has its limitations, especially in the diverse Indian context.

PANKAJ NEGI

New Growth Formula

He always considered GlaxoSmithKline Pharmaceuticals "a doyen of the Indian pharma industry". No wonder, **A. VAIDHEESH** quit Johnson & Johnson to join the UK-based company as VP, South Asia, and MD, India. Some industry observers look at the appointment with suspicion, trying to figure out why his predecessor, Hasit Joshipura, decided to step down or why wasn't a GSK insider promoted to the post. Vaidheesh, however, has his job cut out with GSK's ambitious growth plans for and commitment to India. And, given that he has the backing from CEO Andrew Witty, it might be a smooth ride.

A. Vaidheesh
MD, GSK Pharma

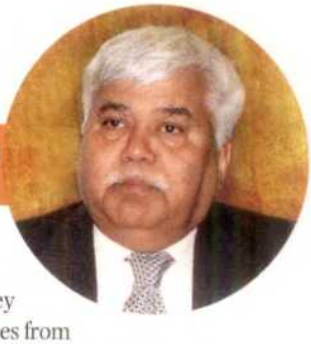


SHEKHAR GHOSH

Rohit Ohri
Chairman, FCB Ulka

Greener Pastures

Adman, **ROHIT OHRI** is all set to don a new role as the Group CEO and Chairman of FCB Ulka. Ohri's gameplan at the Interpublic Group's advertising agency will be to give it the much-needed facelift. Taking businesses to the next level is something that Ohri excels in, say his industry colleagues. When he took over as the CEO of Dentsu Asia Pacific four years ago, it was a small agency largely servicing Japanese brands. He not only enriched the agency's client portfolio, but with acquisitions of creative boutiques, such as Taproot, also made Dentsu a formidable creative force.



R.S. Sharma
Chairman, TRAI

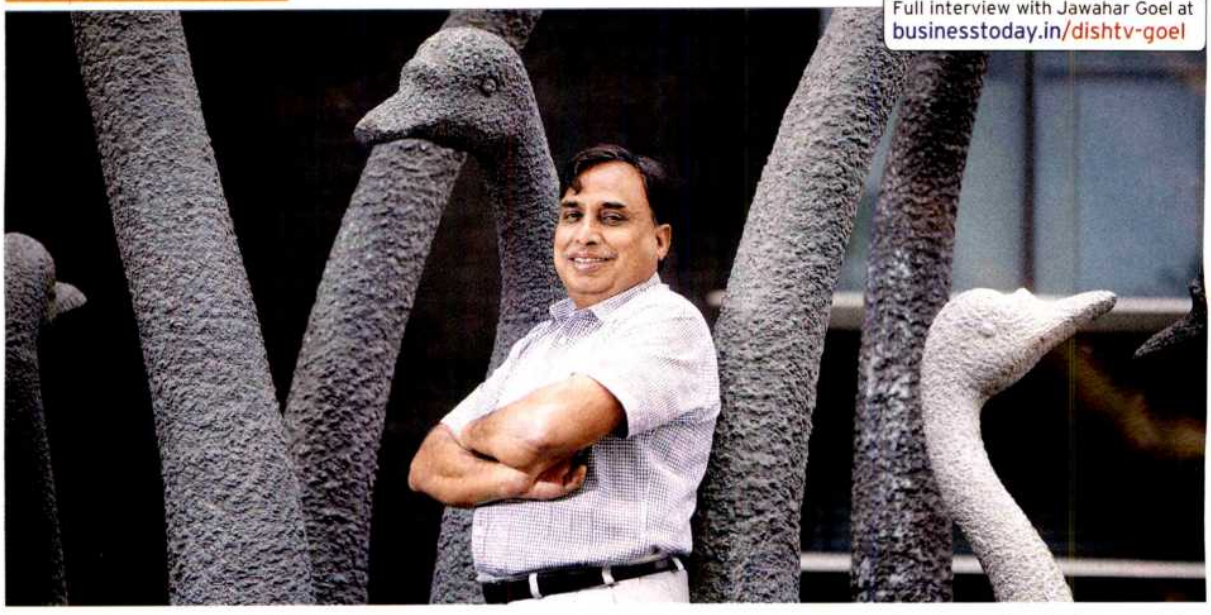
Challenging Call

For over two months when the office of the Telecom Regulatory Authority of India (TRAI) Chairman was lying vacant, things almost came to a standstill. The government recently appointed bureaucrat **R.S. SHARMA** to head the regulatory body, and get moving on some key stalled issues. In March, TRAI released a consultation paper on net neutrality seeking responses from stakeholders. It will now have to give its recommendation on the matter to the Department of Telecommunications following which a new policy on net neutrality will be drafted. The regulator also has the tough task of balancing the demands of telecom operators and OTT (over-the-top) players. Sharma has, in the past, played an instrumental role in implementing the Aadhaar project and designing the ambitious Digital India programme.

COMPILED BY P.B. JAYAKUMAR, E.KUMAR SHARMA, AJITA SHASHIDHAR AND MANU KAUSHIK

LEADERSPEAK Jawahar Goel

Full interview with Jawahar Goel at businesstoday.in/dishtv-goel



VIVAN MEHRA

India's first DTH service provider, Dish TV, has started making profits after a long wait of 11 years. The Chairman of the ₹2,733-crore company, **Jawahar Goel,** tells **Ajita Shashidhar** about the company's challenging journey. Edited Excerpts:

"I was constantly apologetic to shareholders"

Were you prepared for such a long gestation period?

No businessman will knowingly get into a business with such a long gestation period. We were a victim of policy paralysis. We were subject to all kinds of taxes. Over 35 per cent of our revenue was paid as taxes. Also, TAM never reported the weightage of DTH. We didn't get high carriage fee from broadcasters that cable companies got. I was constantly apologetic to my shareholders as I wasn't able to give them good enough returns.

Did you ever want to get out of the business?

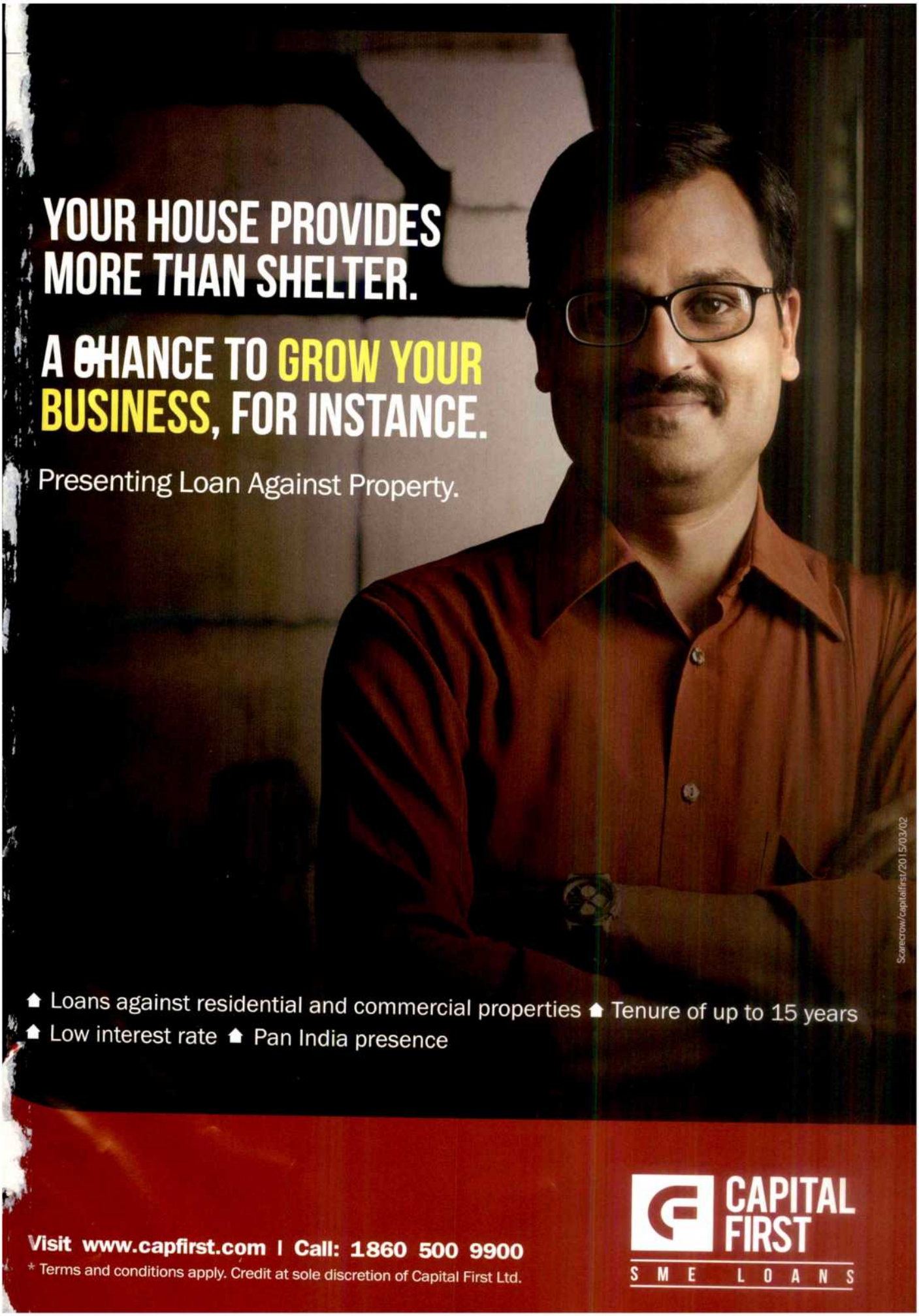
There was no going back after investing so much in the business.

The DTH industry has been registering robust growth. Has the delay in third and fourth phases of digitisation helped?

Digitisation will always be a slow process. For third and fourth phases, no cable company has the wherewithal to invest. In Phase I and II, most DTH companies overestimated conversions. We invested just 10 to 15 per cent more than we usually do. I can't really attribute our growth to the delay in digitisation. We grew more due to our efforts to expand the market.

Will 4G be a threat to DTH companies?

I don't think so. I am in the business of 'push content' while 4G will be more about 'pull content' (user-generated content). When it comes to 'push content', DTH can offer content for as low as 50 paise per day. ◆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